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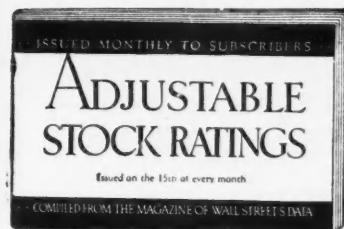
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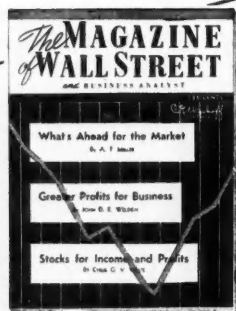
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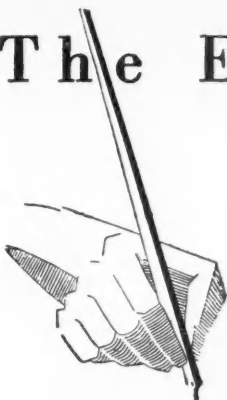
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# With The Editors



## Sacrifice Sale

THIS market absorbed about \$1,421,000,000 in new corporate securities last year, mostly bonds but with a few common and preferred stock issues of some size thrown in. That, of course, is a drop in the bucket compared to the amounts taken in the mythical "normal" year and it has set many in Wall Street to complaining that until we get more new financing complete prosperity will be impossible. But at any rate it represents digestion of the issues that were offered, without a single conspicuous failure.

In the last seven or eight months New York has been called upon for a somewhat different type of absorption. We are buying back from the English some of the stocks and bonds they purchased here in years past. Their reasons for selling are

of the best—there is no doubt of that. The Dutch and the Swiss are on the whole cannier investors than the English, and they have been helping take up the additional supply of American issues. Net liquidation by all foreigners was less than \$4,500,000 in January.

If offered publicly by a group of underwriters, such amounts would be actually unimportant, particularly when split among so many companies and industries. The chances are that more people would recognize the setting for bargains and that distribution would be more thorough. Now that the British treasury has conscripted a large number of securities it is in perfect position to announce regular monthly offerings of certain stocks, with a guaranteed limit and no enlarge-

ment or further offering until the following month, if then.

As every specialist on the floor knows, it is not the quantity of stock offered for sale that hurts, it is the mystery of how much more there is to come immediately after this block has been absorbed. And today the rumor is fighting a stronger battle than ever with the fact.

The fact is that the English had only about \$735,000,000 of American stocks and bonds altogether to sell at the start of the war (Federal Reserve Board figures), and that this market is perfectly capable of buying them. The only thing that could make the latter half of that statement questionable is irresponsible talk that the Allies are dumping U. S. securities at any price.

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### ★ ★ ★ IN THE NEXT ISSUE ★ ★ ★

#### **Spreading War—Effects on Industries**

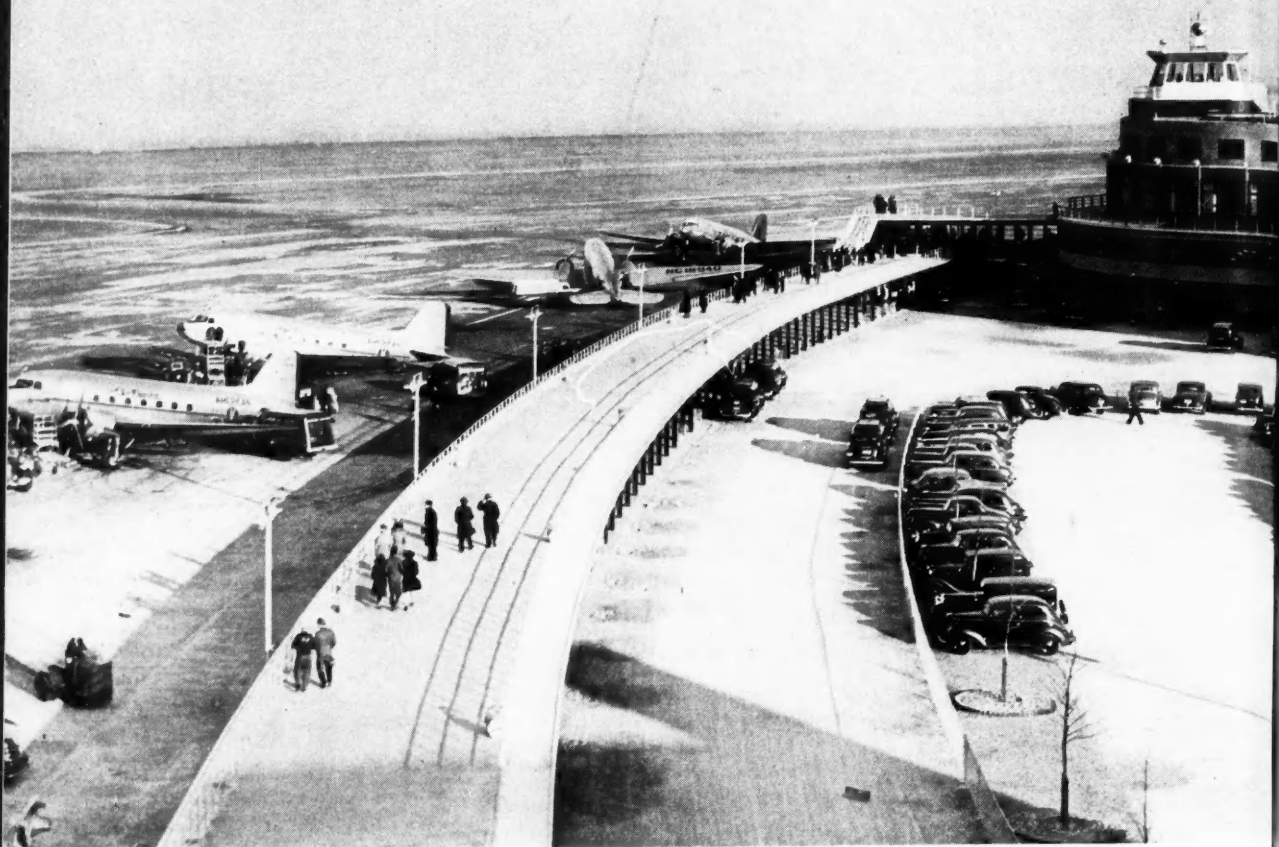
By JOHN LLOYD

#### **Calling Japan's Bluff**

By T. A. BISSON, Foreign Policy Association

#### **The Omnibus Rail Bill**

By SENATOR HARRY TRUMAN



*American Airlines Photo*

New York's brand new municipal airport at North Beach, L. I., will soon prove too small for the volume of traffic it will be called upon to handle. Such, at least, is the view of one prominent figure in the air transport field, the continuing rapid expansion of which marks it as the fastest growing industry of any importance in the United States. An unspotted safety record over the past year, bigger, better and faster ships, lower fares and more frequent schedules—these and other factors are responsible. There are, however, a few air pockets ahead—lower airmail rates, for example. The industry's prospects are discussed in the article beginning on page 81.

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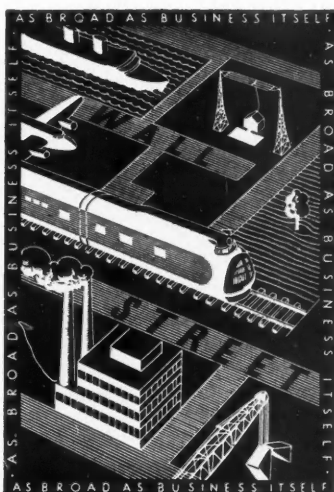
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# THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher*

LAURENCE STERN, *Managing Editor*



## Questions of the Day

### **Which is it—two million or ten million unemployed that we have to get back into industry?**

The argument over those figures is a statistical maze; until the census is completed there will be little point in tangling with them. But there are two facts worth hanging on to here because they are simple and true and they mean what they appear to mean. In the first place, a million more men and women are employed today than a year ago. In the second place, the percentage of population gainfully employed, as shown by the graph on page 80, is the highest it has ever been in the country's history since it has become industrialized. Whatever the faults and shortcomings of our system, it is definitely on the road to better performance.

### **Can \$6,000,000,000 in excess reserves be taken as guaranteeing the market for high grade bonds?**

The effect of record-breaking excess reserves—up 50 per cent in a year—is undeniably to furnish a cushion of potential support for the bond market. The chances of an era of tight money in the old sense, meaning a restricted supply, are infinitesimal now. Yet that does not rule out the possibility of higher interest rates, always in the past the accompaniment of war. If interest rates go up, most of the longer term money bonds have a good way to come down, and several billions of excess reserves are not going to hold their yields depressed far below a rising cost of money. New York City banks have shown no signs of fear that a drop in

bond prices is imminent; they have switched out of notes and into medium or long term bonds during each spell of weakness in recent months; and they have taken some nice profits on their courage. Nevertheless, it would be unwise to rely on present money conditions as complete assurance against higher bond yields.

### **Is the United States definitely drifting toward war?**

Our political leaders assure us that we are not, and all polls show public opinion strong against involvement—but this was no less true up to within a very short time before we got into the World War. No people ever *desire* to go to war and therefore no President could do other than stoutly assert he will keep us out. Yet even before it began we had an emotional stake in this war far greater than in the days of 1914 and 1915; we are rooting openly for the Allies and the majority in this country apparently favor giving them every assistance short of participation in the trouble ourselves.

Having taken sides, we shall be in an uncomfortable spot if our side begins to lose. Already we have moved to prevent a German victory—first rewriting our neutrality laws in order to sell arms to the Allies, then reversing the Administration stand, with public and Congressional approval, on the matter of releasing the latest type of aircraft for export. If this trend of sympathetic co-operation continues we shall probably before long work around to the point of extending credits to

BUSINESS, FINANCIAL and INVESTMENT COUNSELORS • 1907 — "Over Thirty-Two Years of Service" — 1940

the Allies. Then would soon rise the question: although keeping our army at home, why should not the navy and perhaps an American air force "do its bit"?

The surest preventive for any such chain of events

would be a demonstration by England and France that they have the situation well in hand. That, however, is another question than the one we started out to answer—and a far more difficult one.

## The Trend of Events

**GOVERNMENT IS A LIABILITY . . .** Wendell Willkie has been doing almost as a matter of course what any sensible person would be expected to do in an argument, and what any campaigning politician would consider lunacy. Mr. Willkie starts by acknowledging that the New Deal has done many fine and necessary things. Like a business man working out a sound policy with associates who differ with him, he provides a basis for negotiation and saves time and talk by getting that on record first. From there on he is willing to fight all the way for his conception of how the country's future should be handled.

In one of his recent speeches the utility man gives his idea of a liberal—"a man who believes in freedom for himself and for other people." Everyone claims the label. "In my business travels around this country in the past two or three years, I have met and talked with hundreds of people of very different kinds, and not one of them was a conservative." But Mr. Willkie's liberal, while approving the social objectives of the New Deal, takes issue with the methods used in arriving at the almost unanimously agreed upon goals. He gets down to specific cases, telling not only what is wrong with present efforts but what should be done instead in the way of taxing and spending and attitude toward business. And the principal item in his indictment of the New Deal is that it conceives of government as creating economic opportunity and security for the people. "For the old American principle that government is a *liability* to be borne by the citizens for the sake of peace, order and security, the New Deal has substituted the notion that government is an *asset* without which none of us can survive." Right or wrong, this line of thinking, even the vocabulary, is consistently businesslike. It is natural that Mr. Willkie's efforts as a one-man Opposition should be most appreciated by those who understand the language he uses.

**NATIONAL DEFENSE . . .** In the world of today might is right. No matter what any nation's foreign policy may be—including our own—it can only be effective if supported by formidable armed power. To permit this country to remain weak in national defense, either quantitatively or qualitatively, would be the height of folly. Yet, what are we doing? How effective is the present program in actual execution? Are we getting our money's worth for the billions that are being spent? This publication does not know and the public does not know. We can not escape a suspicion, however, that

various aspects of the situation, if brought into the light, would be nothing short of scandalous.

True, we have adequate aircraft production; we have advanced army mobilization and expansion plans on paper; we have a qualitatively good navy; we have efficient mass production industries; we have adequate raw reserves of man power. But while our total potential power is very great, potential is not enough. Excepting aircraft, we are far behind other leading nations in armament industries; the army is apparently woefully deficient in modern artillery, including anti-aircraft guns; and our naval expansion program—God-awful slow—is more impressive on paper than otherwise.

With all due respect, our present Government is strong on objectives and good intentions but weak on execution and practical administration. We are tacitly asked to take it on faith that it is doing the best possible job on national defense. Is it? We wonder. The arm-chair strategists who have so roundly criticized the tardiness and inefficiency of Britain's re-armament might well turn their attention homeward.

**ADVERSITY OR OPPORTUNITY? . . .** "We started out primarily interested in transportation. We saw opportunities to serve the public and make a return on our investment in the then infant electric business. Thus, if today or tomorrow an opportunity were offered to develop in another field which promised to produce more of the things the people of the country need and want, and at the same time enhance and protect the interests of our stockholders, we would not feel that tradition would stand in the way of our availing ourselves of such an opportunity."

Thus spoke the newly-elected president of North American Co. If the Public Utility Act is to stand—and Mr. Shea noted a growing public and Congressional sentiment against its death sentence provisions—North American's course is to be one of ready compliance, though not ignoring the rights guaranteed its security holders under the Bill of Rights. Moreover, it is providing for the worst that may befall—forced sale or other disposition of a substantial part of its properties—which worst would not be so bad at that. The company has so to speak hung out a "Capital to Let" sign and, though idle funds are already piled high in our banks, there are nevertheless some promising avenues of investment for equity money. With common sense and breadth of vision, the utility holding companies may yet be able to turn adversity into opportunity.

# As I See It!

BY CHARLES BENEDICT

## WAR IN EARNEST

**T**HINGS do not look well for the Allies at this time. The Germans have had all the better of the fighting in Norway—and they retain the initiative not only in the daring and skillfully planned Scandinavian venture but also in the more general strategies of war and diplomacy.

There is no use blinking the fact that Hitler's long succession of "surprises"—each constituting a Nazi victory—is as yet unbroken; and that for the people of England and France—and their countless millions of friends in America—the record continues to be one bitter disillusionment after another.

Bit by bit the evidence of the Chamberlain regime's bungling ineptitude and inadequacy mounts up; and the British censors are powerless to conceal the essential truth more than temporarily either from their own people or the rest of the world.

Recently an able American correspondent cabled an eye-witness account of the virtual massacre of two battalions of British troops who had been hastily dumped into Norway, inadequately trained and inadequately equipped. One could accept the official British version that this was an isolated and unimportant happenstance, not representative of the general Allied effort in Norway, if it did not dove-tail both with a long prior record of British mistakes and with scattered news items from Sweden which cast grave doubt on the adequacy of the entire Allied campaign in Norway and its adjacent waters.

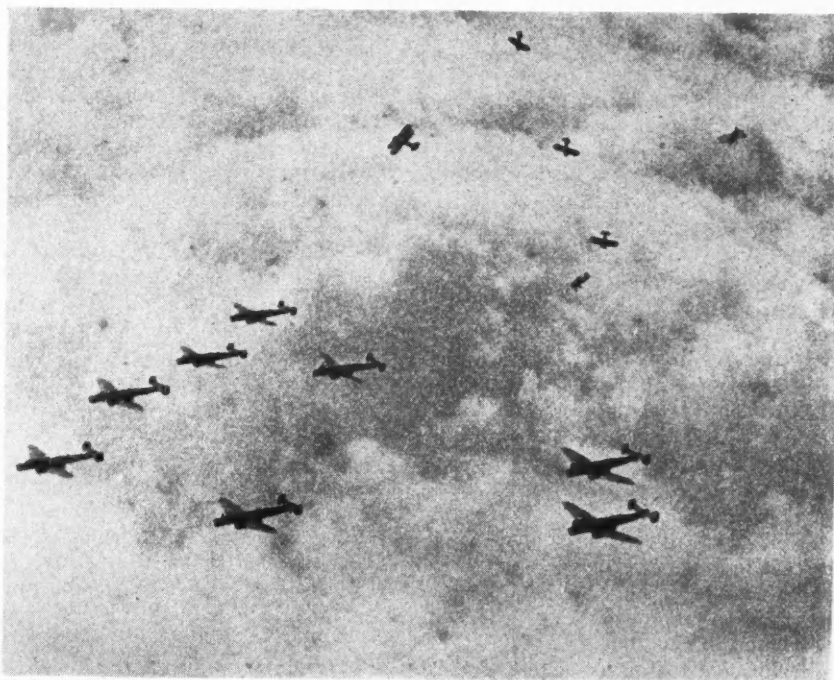
For example, a telephoned dispatch to the New York Times from Stockholm reports that in recent days both ships and airplanes had carried "great quantities of men and artillery to Norway" and that a Swedish trawler had crossed the much talked of British mine field in the Kattegat, seeing not a single mine but observing numerous German ships. Confirming this, a United Press story from

Sweden quotes Captain James Murray, British vice consul at Drammen southwest of Oslo, as stating that "a steady stream of German troops" is arriving at the Norwegian capital by ships and planes.

This is far more significant than the rout of 1,500 ill-equipped British troops at Steinkjer or the "tactical withdrawals" of Allied forces from this or that Norwegian advance post being reported daily up to the time I write this.

It strongly suggests that previous official reports of British "successes"—the destruction of a major part of the German navy, the cutting of the Nazi supply line to Norway, the mining of the Skaggerak, Kattegat and Baltic—were greatly exaggerated, to say the least.

It strongly suggests that the German advantage in Norway is continuing to increase. Since time is the essence of this struggle for control of the Scandinavian peninsula, each day piles up (Please turn to page 124)



Movietone News Photo

Swedish air fighters maneuver in practice as their country's position becomes increasingly precarious

# Market In New War Phase

**The technical evidence is again largely neutral as an unusually mixed market keeps close watch on Europe. The situation calls for caution in general but is not without certain bullish particulars, as discussed below.**

BY A. T. MILLER

**W**HILE the British were pushed back in Norway last week, the stock market held its previously prepared line of defense. It was a week of general nervousness and hesitation—as has been the entire period since Germany's surprisingly fast invasion of Denmark and Norway—but our weekly index of 316 issues showed no change and uncertainty regarding the fortunes of war expressed itself chiefly in a further contraction of trading activity.

From the early April high the broad weekly index is down by 2.4 points, while our daily average of 40 representative industrials is down by 3.28 points. The weekly index, which normally covers the bulk of all trading activity, stands about midway in the relatively narrow trading range marked out this year to date—3.3 points above its low, 2.4 points below its high.

On the other hand our daily industrial average presents a picture somewhat less comforting, standing 5.04 points under the 1940 and only 2.26 points above its previous low.

Enough time has now elapsed to make it undeniable that Hitler's latest move has snuffed out the promising technical indications which accompanied the market's advance of late March and early April. That rally failed to generate sufficient momentum to carry through previous well defined resistance levels, although its character—and especially the marked expansion in volume which accompanied it—suggests rather convincingly that the averages were pointing toward better things until the foreign news again set us back, as has happened so many times during the past two years.

As has been pointed out here before, the technical significance of fluctuations of a few points either way in the industrial average is subject to some discount, for the entire range of even the volatile Dow-Jones average over the seven and one-half months since mid-September has been only approximately 11 points. From the midway point of this range, a rally of 3 or 4 points centers speculative attention on a test of the highs, a reaction of equally minor scope sets up fear that the low may be soon penetrated.

Looking at the long period since the initial war advance terminated, we can not recall any prior time when the market showed itself so impervious to both good and bad news from the business front. During the weeks while the Reserve Board production index was making its major gains, the average got nowhere on the upside. During subsequent weeks, while the Reserve Board index was sliding down from 128 to 103, market reactions failed to develop engulfing momentum. Now that business is again showing sub-surface evidence of probable near term improvement, it is impossible to be entirely confident that the market as a whole can "go to town" on it—although, of course, favorable volume and earnings constitute a support without which the uncertainties of war and domestic politics would work much more damage than has been experienced.

On normal technical reasoning the Dow-Jones levels of 144.65 for the industrials and 29.78 for the rails would have to be considered as the last points of defense on the market's Maginot Line. Indeed, some technicians doubtless will proclaim a bear market, should both these levels be penetrated on rising volume. We have a feeling that market interpretation under present abnormal conditions is not this simple—although, of course, the safety first speculative policy is always to avoid arguing with the averages. We are inclined to believe that a decline through previous lows on volume would have to be respected if it had no obvious explanation in the news, but if it should be brought about by another shock in the foreign news it might readily prove to be a false or abortive move, precisely as was the March-April rally.

Meanwhile, regardless of the present absence of any significant trend in the averages, the market certainly is far from devoid of opportunity for the shrewd and alert trader or investor. From the highs of last September to date a respectable number of individual issues show gains ranging from 20 to more than 100 per cent, various of which had been called to the favorable attention of our readers, including the leading aircrafts, air lines and shipbuilding issues, as well as such specialties as Thompson Products, Ex-Cell-O, Cleveland Graphite Bronze,

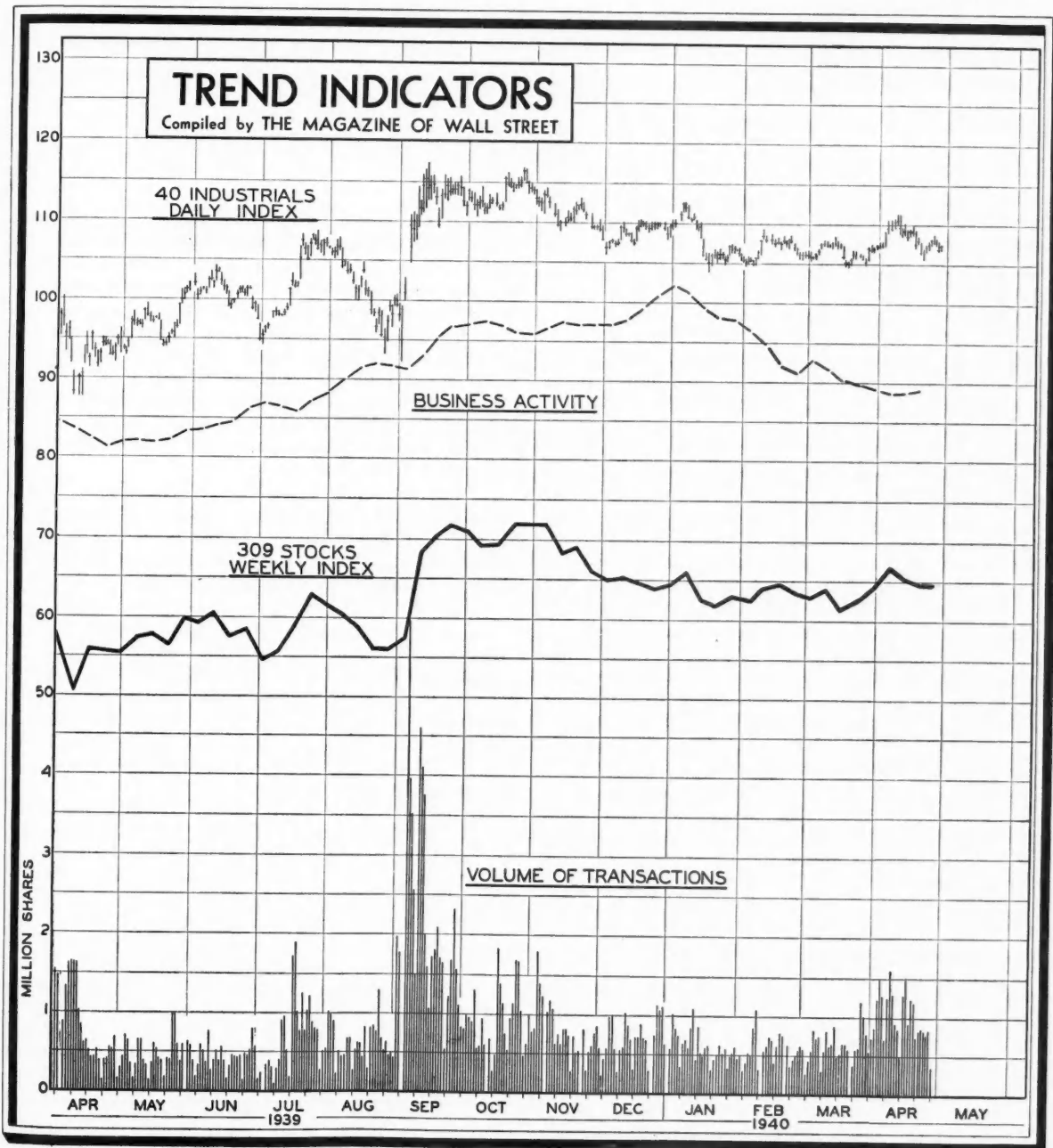
Clark Equipment, General Time Instrument, Outboard Marine & Manufacturing, Timken-Detroit Axle and others.

During the past week, bucking the general inertia, a considerable list made new highs for the year, including such diverse issues as Atlantic Refining, Atlas Powder, Baldwin Locomotive, Bridgeport Brass, Celanese, Cutler-Hammer, Doehler Die Casting, Ex-Cell-O, Bethlehem Steel, Inland Steel, General Time Instrument, National Acme, Pillsbury Flour, Reynolds Tobacco, Savage Arms, Worthington Pump and Wrigley.

As a generality, we think it prudent to maintain a conservative reserve of buying power both because a clear-cut technical signal of a resumption of the main

upward trend of the averages has yet to be given and because additional news shocks growing out of war developments should be allowed for. Hence, while advising no liquidation of sound equities, we refrain from recommending any blanket extension of commitments. This, however, is not entirely a negative policy. A few issues that we believe to have better than average prospects are recommended elsewhere in this issue—subject to the reservations stated in this more general analysis of the market position. That is, they should be purchased only if individual circumstances permit acceptance of some measure of risk and only if such purchases still leave the buyer with a reasonable margin of liquidity.

—Monday, April 29.





The recession in economic activity has flattened out, with consumption generally above production, raw materials prices higher, new orders increasing moderately, sentiment better but still cautious.

## Which Way For Business Now?

BY JOHN D. C. WELDON

THE corrective downturn in business activity, made necessary by the boom in new orders and production during the final four months of 1939, gives evidence of having terminated.

If this conclusion is correct, the near term alternatives are either maintenance of the present business level, as measured by this publication's adjusted index and by the Federal Reserve Board production index, or a moderate advance. The latter, in the writer's opinion, is the more probable.

The most pertinent current evidence supporting this view consists of the following: (1) our composite business index has advanced for two successive weeks, the first significant reversal of the downward trend which set in at the turn of the year; (2) raw materials prices, always a major influence on business inventory policy, have advanced briskly in recent weeks since the war spread to Norway, our composite index at this writing having recovered 36 per cent of the entire decline from the high of last September and the Moody spot index having made up 50 per cent of its entire preceding decline; (3) the past fortnight has brought definite improvement in the volume of new orders booked in various important industries, including steel, paper, leather, textiles, electrical equipment and machinery.

While the outlook, therefore, has become more favorable, it does not follow that we can any time soon anticipate any such tremendous wave of forward buying, or any such dynamic uprush in industrial production, as we saw in the weeks following the outbreak of the war last September. In relation to current consumption and to any probable level of demand over the next several months, inventories generally are more comfortable than they were when last autumn's buying rush was touched off. Moreover, in the present situation even a fairly substantial increase in new orders might readily take a period of weeks to influence production proportionately because for a time new demands can be met in considerable degree from existing industrial inventory.

We do not hesitate to acknowledge that this forecast of moderate business improvement from now into early

summer is attended by considerable risk of error both ways. Unpredictable war and political developments are capable of affecting the situation for good or bad. As to these contingencies, however, the writer's reasoned assumptions are as follows:

1. Early termination of the war is unlikely. Hostilities probably will spread and develop increased intensity. The net effect on our economic situation is, and will remain, inflationary. A significant decrease in the weight of this inflationary factor between now and summer is unlikely, while on the other hand an increased weight is possible, if not probable.

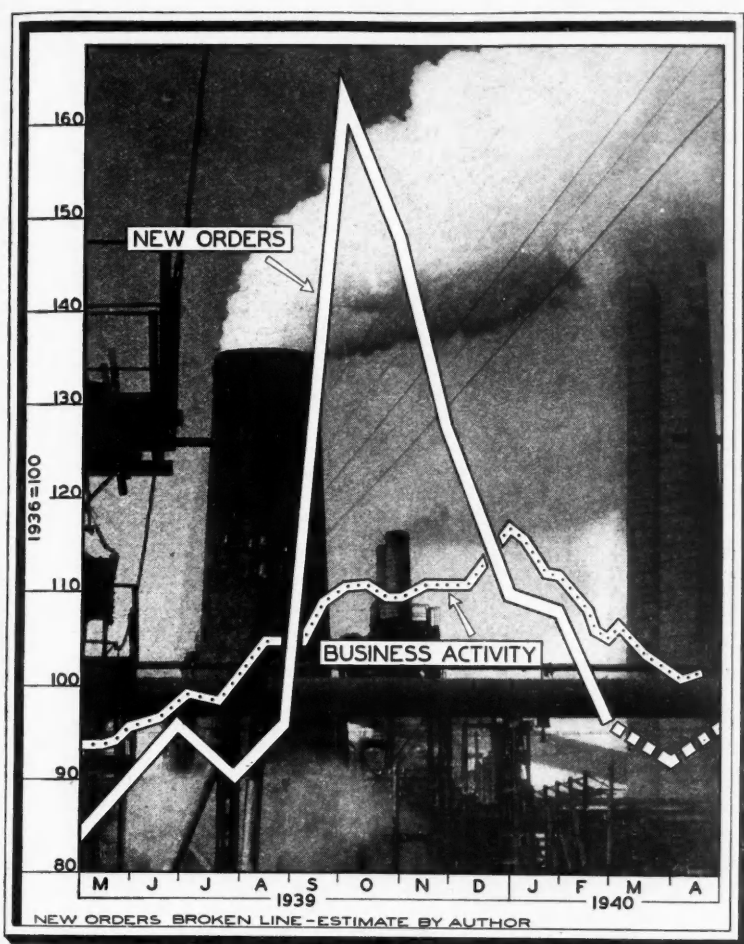
2. Our uncertain domestic political situation will probably not be clarified before mid-July at the earliest, if then; and meanwhile developments in this field are unlikely to exert a dynamic influence one way or the other on business or the security markets.

### Surprise Is Possible

Hence our forecast of moderate business improvement between now and July seems *reasonably* safe—to which we would add the observation that in the existing psychological atmosphere of doubt and caution the possibilities of surprise in the business trend are greatest on the optimistic side.

We are, of course, talking of business in terms of the seasonally adjusted and widely accepted indexes. One would be lost in a statistical jungle without them—but we must keep in mind that these *are* adjusted measures rather than measures of actual business volume, and we must also keep in mind that, for reasons to be noted hereafter, they possibly understate, rather than overstate, the country's present economic activity.

Due to allowance for seasonal variations, last autumn's rise in the adjusted business and production indexes—most especially the latter—exceeded the rise in actual economic activity. Conversely the decline in the adjusted indexes from December into April exceeded the decline in actual volume. While the normal seasonal trends of the individual components of the business indexes from now into summer vary greatly, seasonal expectancy for



Triangle Photo. New Orders figures from National Industrial Conference Board.

a total actual activity is moderately downward. Hence maintenance of present actual volume would produce some rise in the adjusted business index over the near term, and any rise in actual volume would produce a still greater rise in the adjusted index.

Partly for these statistical reasons and partly for economic reasons, a by no means improbable goal for the Reserve Board production index by July is the range 110-115, as compared with a present level around 103.

We suggested heretofore that the more familiar business indexes may understate existing economic activity. This suspicion is especially strong as regards the Reserve Board production index. This is true because this index particularly, and certain others in less degree, only partially reflect the activities of new industries which have experienced major growth in relatively recent years; and because some of the fields most greatly stimulated by the war and armaments demands—including shipbuilding, machinery and aircraft—are not directly included. We now hear estimates that our aircraft industry by the end of this year will be producing planes at an annual rate of 25,000 units, or a value of some \$2,000,000,000. The writer can't vouch for the precision of these estimates—but as a generality the armaments activity is pointing toward an economic stimulation, in

comparison with which the late lamented demise of the New Deal public works program can be considered a small potato.

Aggregate public demand for general merchandise experienced only a mild recession in the first quarter, allowing for seasonal influence, apparently made bottom by the end of March and has shown substantial improvement in April. Demand for consumers' durable goods also has been maintained at a level close to the fourth quarter's recovery high. After some slackening in March, due to bad weather, retail automobile sales have made an excellent April showing, and there is at least strong tentative evidence that, in maintaining high production during the months when general production was receding, this industry made the right bet on the outlook.

A projection of current trends would suggest the third best year in the industry's history, with factory sales in the vicinity of 4,300,000 units. Considering the important supply industries affected, anything like that volume of business in the key motor industry is very good news for business generally. If recent and present retail sales gains are maintained, second quarter factory output may well prove to be above seasonal normal—especially since recent sweeping C. I. O. victories in General Motors employee representation elections raise the specter of new union demands and thereby give the manufacturers added inducement to maintain field stocks.

The drab stock market performance of the building material shares to the contrary notwithstanding, residential building contract awards thus far this year have held near the best recovery level—the monthly average in 1940 to date having been above that at any time in 1939, which happens to mean also above that of any period of 1936-1937.

Pulling the evidence together from the consumers' side: public income and purchasing power have shown only a very slight decline in the months while the adjusted business index was declining by a total of 13.7 per cent; and a combined graph, seasonally adjusted, of sales of general merchandise, of sales of automobiles and other consumers' durable goods, and of residential building awards, shows a sharp rise from the summer of last year to late autumn, followed by minor wiggles along a recovery plateau. If this were the only graph available, one would not be aware that any substantial business set-back had been experienced.

There has, of course, been no recession of production in such activities as aircraft, shipbuilding, machine tools and machinery, electrical equipment, chemicals, trucks and buses—not to mention numerous relatively stable consumption goods lines and services.

Very interesting evidence of the relationship between steel production and the rate (Please turn to page 127)



# Happening in Washington

## Foreign Policy as an Election Issue

BY E. K. T.

**F**OREIGN POLICY is certain to be a big issue in the political campaign this summer, regardless of the fortunes of the European war, and the issue will not be expressed in the party platforms so much as in the implications and suspicions behind them.

Both parties will be pledged to keep America out of war. On that question there will be no difference so far as printed words go. Nor will there be violent differences on other matters of foreign policy such as the neutrality act, shipping, the Monroe Doctrine, foreign trade, or the Far East. And both parties will be for adequate national defense. The language of the foreign policy planks will be sufficiently broad and generalized that few people can quarrel with them. But beyond the platforms will be the question of what the parties and the candidates really mean and what they would do if given a chance.

It is too much to say that the big issue will be isolation versus internationalism or intervention, but the Democrats will be accused of sympathy with interventionist sentiment. Even more invasions of neutral countries, widespread civilian bombings, and a threat of Allied defeat could hardly force the Democratic party into an advocacy of war or steps which might be interpreted as leading to war, but still the accusation will be made. It is being made now. Just about every Republican candidate has taken a strong isolationist stand and has left the inference, if not the charge, that Roosevelt is on the other side of this issue, while the President has come back with the crack that Republicans want to do nothing to bring about a better world order and a secure peace.

All political observers agree that sentiment in this country is overwhelmingly against meddling in European affairs, and that any candidate who advocates intervention either now or at some future time will have rough going in the campaign. The Democrats therefore enter the campaign with a handicap on this issue, for their opponents will not fail to point out that Wilson campaigned on a peace policy and got us into war shortly after re-election and they will also keep fresh the charges that Roosevelt and his New Dealers are "international

altruists" and supporters of the League of Nations and other forms of foreign cooperation.

Roosevelt personally is a particularly good target for such thrusts because of his suggestions for quarantining aggressor nations and using methods short of war to penalize them. If he should run again, foreign policy may become one of the major issues, and he would be hard put to defend his position. The chief argument of the third term advocates is that Roosevelt is needed in the White House to guide the nation successfully through a foreign crisis, and the existence of the foreign crisis is said to be the only condition on which the President will accept a third nomination. Therefore, the Republicans may well—and surely will—ask what else such a crisis may be but intervention in Europe. The argument will run: if America is going to keep out anyway under any administration the chief reason for a third term is baseless; if the Democrats anticipate a serious foreign situation they must be planning to put us into the war; if the country wants to stay out it should elect a 100 per cent isolationist and not take chances with a man and a party known to have internationalist leanings.

Republican orators are already making the most of the various hints Roosevelt has dropped that he feels that this country has some sort of duty to interfere with conditions abroad. Sen. Taft, for example, recently said, "I do not feel that the President has wholeheartedly accepted the declared view of the people of this country that we must stay out of war except in defense of our own land." Taft comes nearer to having an international viewpoint than any other candidate, and his rivals are using even stronger language, although most of them seem reluctant to make foreign policy a football of domestic politics.

Any other Democratic candidate will face the same charges of sympathy with intervention, though the charges will be less pointed than in the case of Roosevelt. Any hint that our sympathies are with the Allies, that democracies should cooperate, that aggressors should be curbed will be called war-mongering, and Republicans will try to draw a distinction setting off our sentiments and emotions against a hard-boiled, realistic determina-

tion to stay out of war come what may. There is also political dynamite in any talk that while we should stay out of the war we should get in on the peace, for that smacks of another League of Nations.

Therefore the prospect is that both parties will be talking isolationism throughout the campaign, or at least promising to high heaven to keep us out of war. Republicans will say that the Democrats have their tongues in their cheeks and are really itching for a chance to mix in the European mess. Democrats may let loose a few jibes about ostrich-like ideas of trying to ignore the rest of the globe, but they will be mighty careful not to lay

themselves open to charges that they are preparing to intervene abroad unless they think public sentiment has changed very materially from what it appears to be now.

Specific issues of foreign policy should play a minor role in the campaign. Republicans will rant about reciprocal trade agreements, purchase of foreign gold and silver, the neutrality zone patrol, and appointment of inexperienced diplomats, but will not make issues of Far Eastern relations, the existing neutrality law, the Export-Import bank, and similar matters. To the extent that foreign policy features the campaign it will be a contest of degrees of determination to keep out of war.

## CAPITOL BRIEFS

**New Deal morale** is very low. The absence of new laws, reforms, programs, slogans and white rabbits cannot be explained solely as a pre-election ruse to quiet conservative opposition. Fact is reformers have largely spent their fire. Roosevelt is not campaigning for anything. New Dealers are on the defensive, trying to hold their ground, which isn't half so exciting as putting over something new. Congress is running hog-wild and leaderless, ready to throw the New Deal program into reverse at every opportunity. Not a few administration officials privately feel the fun is over and they might as well get out while the getting is good and wait until the pendulum swings back to their brand of progress some time in the future.

**Dies committee** revelations of "Trojan horse" tactics by communists in U. S. labor unions may have an important influence on the election by undermining support of the labor and left-wing vote. Many New Deal sympathizers are shocked and disturbed by recent disclosures and charges. European developments have made such appear more serious than previously.

**Logan-Walter bill** to unify procedure of administrative agencies and permit full court appeals has the administration in a tough spot. Bill would undoubtedly hamper speedy action, but its overwhelming majority in the House shows the popularity of any move to curtail the powers of government agencies. Bill is sloganized with such catch phrases as curb bureaucracy, regulate the regulators, give industry a day in court. If administration manages to kill bill in Senate (which now looks doubtful) or if Roosevelt vetoes it, Republicans will have a popular campaign argument, and even if it passes they can point to administration's opposition as proof the New Deal wants to regulate everything without regard to law and individual rights. It still seems that the best the Democrats can get from this one is the worst.

**Reorganization order** may prove to be a boner if aviation interests fighting transfer of CAA to Commerce Department can get Congress to make a close study of the latest bureau-shifting plan. Little in the plan can be shown to save money or increase efficiency, and many of the transfers will increase costs and red tape because of illogical divisions of work. Truth is the transfers were

drafted by little group of theorists working secretly without close knowledge of activities of the agencies concerned and without any consultation with them whatever. A close study of Roosevelt's four reorganization orders in the year since he got his long-fought-for law would show his promises of economy and efficiency have not been fulfilled and a major result has been to place a lot of formerly semi-independent agencies directly under White House control. But Congress probably will do no more than ignore Roosevelt's request that the reorganization law be extended in time and scope.



Harris & Ewing

While the Administration has been trying to take the country "out of the red," Martin Dies—and his committee—has been doing his best to take the "Red" out of the country. The try may come to naught, but the trial has turned up some swell GOP campaign material.

**Food and Drug** transfer to FSA is not arousing opposition from the trades concerned since there is an implied promise that F & D Administration will not be dominated by the doctor influence thought to control Public Health Service though the two will be sisters in FSA family. But what is overlooked is that FSA is on the way to become the

much-feared consumers' department, and the drug, cosmetic, food, and farm processing industries will have plenty of worries if professional consumer groups find friendly ears in F S A.

**Wendell Willkie's** sudden rise as a GOP Presidential possibility has politicians non-plussed. Associates have long realized he has all the equipment of both a demagog and a statesman, but are wondering if the country really would accept an out-and-out big business executive (even though a "tame" utility man) without any political experience or organization support.

## The Promise and Problem of Technological Progress

BY JOHN LLOYD

**T**HE chances are that capitalism has quite a few years of life left in this country and that it will go on justifying itself principally by its ability to improve itself. If so, the most typical accomplishments of the system—the points on which it is most bitterly condemned and enthusiastically applauded—will continue to fall under the forbidding head of technological advances. The arguments over their effects will be just as obscure and fruitless, but if the profit system is to work, every year it must provide something new to debate. Otherwise we shall have an entirely different type of economy on which to blame our miseries. Whatever it may be called, if it does not *appear* to throw men out of work by substituting machines for muscle, it will not be capitalism.

One of the most direct examples of what technological improvements mean to two viewpoints was presented the other day before the T N E C. W. H. Harrison, vice-president of the American Telephone and Telegraph Company, testified that the dial telephone had not eliminated operators entirely, even where it had fully supplanted the manual system. Many are still required for all sorts of special services, and additional men of greater skill and higher wage standards are needed. In fact, the present average weekly earnings of company employees have risen to about \$37 a week. And without the dial system, present standards of service at the same rates would be utterly impossible.

For the rebuttal, a union official told the committee: "The dial telephone is the perfect example of a wasteful, expensive, inefficient, clumsy anti-social device being substituted for satisfactory, competent human labor which received wages for work now being performed at exactly the same expenditure of human effort without the compensation of wages. The telephone subscriber does the work for nothing." And "wages have gone up somewhat largely because no new employees, who naturally get the lowest rates, have been taken on for years."

The charge was made that dial phones had abolished 150,000 operator jobs in the last fifteen years. That, together with the statement that the telephone company has been hiring practically no new workers, would

seem to constitute a serious indictment of responsibility for unemployment conditions.

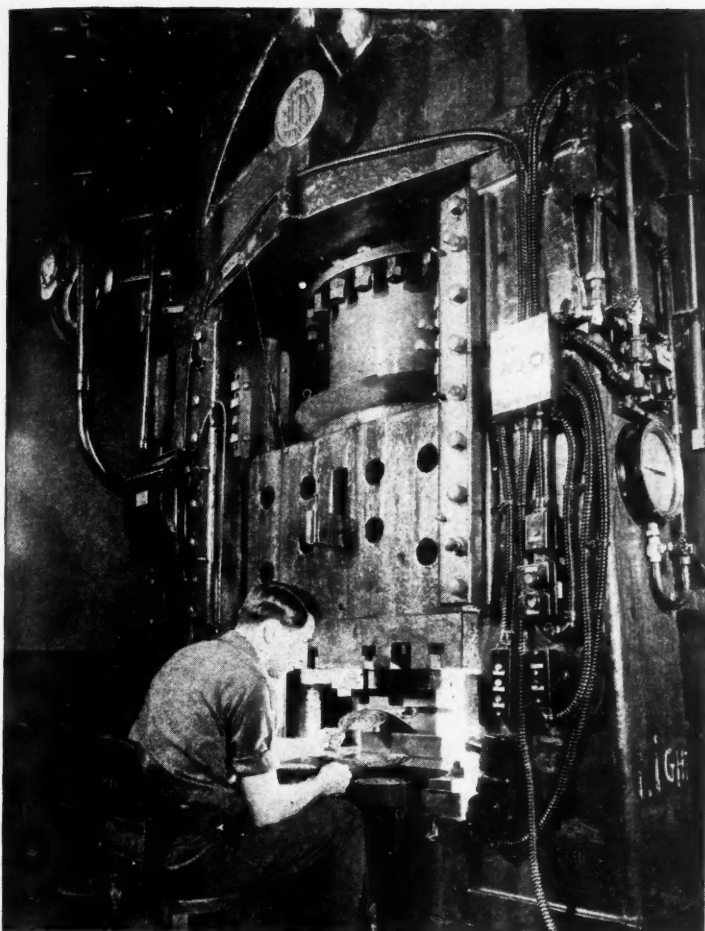
Of course, the telephone industry has been an offender in this respect since its inception. Any new industry is. When Bell got his project into commercial acceptance he threw out of work a fairly large number of messengers who had been making a living in New York and other cities. The blow to the telegraph operators was also heavy, though not mortal. However, they had only recently put the pony express out of business and could hardly complain. Before that, there had not been the same demand for speedy transmission of messages. Each step forward in speed and economy had created a new market for a service as it created unemployment.

If there was an essential difference between what the telephone did to the messengers and what the dial system did to the manual operators, it was that a cold-blooded profit enterprise had learned to care whether or not it threw people out of work with its improvements in efficiency.

### The Chase of the Profit

That is the first step toward a solution of the problem of reconciling the tried and proven capitalist system with new social concepts which—like it or not—are in control to stay. The American Telephone Company faced a depression after 1929 in which not only were fewer phones needed but the amount of new construction feasible dropped to a trickle. An uncompromising chase of the profit in that period would have dictated only one course—fire 'em. Yet Mr. Harrison testified that the organization made room for 60,000 unnecessary employees during the bad years. As a contribution in a groping but practical way toward bringing capitalism up to date, the telephone company did its bit.

But to return to the 150,000 who are supposed to have been thrown out of work in the last fifteen years by the advance in telephone mechanisms, what is to happen to them and others like them each time industry moves forward? The labor unions have several answers.



Westinghouse Photo

**With modern machinery, one man can do the work of many far more efficiently.**

Some of the labor organizations are strong enough actually to keep the improvements out of an industry. Building has provided examples of that. Or they favor spreading the reduced work among the same number of employees and paying the same wages. To a certain extent, this has happened in almost every major industry over the last ten or fifteen years. The final alternative in the eyes of labor, if one must drop half the workers in a factory because of increased efficiency, is to double the pay for the men remaining. *Anything so that total wages and therefore total purchasing power will not be decreased.* Once you begin lowering the purchasing power of the wage earner, you start the spiral of decreased consumption and still lower wages. The Hoover administration worked day and night to prevent such a spiral, but it developed nevertheless.

It is on this point that we begin to see some very recent progress made in thinking and fact-finding. The Brookings Institution has done an excellent job with its study on "Productivity, Wages and National Income," by Spurgeon Bell. Dr. T. J. Kreps, economic adviser for the TNEC, has been thinking along the same lines as that study, as his testimony before the Committee showed. Dr. Kreps is anything but a reactionary, yet he takes a stand directly contrary to that of organized

labor. After indicating his belief that "we are facing not the end of invention but, on the contrary, an acceleration of the rate of invention," he insisted that "no beneficial effects follow if the benefits of the machine are absorbed by capital or if they merely result in an increase in hourly wages."

What does this mean in a concrete case? Essentially, it means that the process of lowering prices and expanding volume which has been going on for years must continue. It can not be stopped by greed either on the part of the owners of a business or the workers. The benefits to both these groups must come indirectly from the increased consumption fostered by lower prices. Labor, in particular, must be content to take the bulk of its gain from the fact that constant cheapening of necessities, luxuries and the things in between—brought about by technological advances—raises its standard of living without any increase in money wages.

Consider, as the Brookings Institution study does, the case of a manufacturer who improves his methods sufficiently to turn out the same volume of goods with 1,000 fewer workers. He discharges these men and adds the million dollars in wages he would have paid them to the pay of his remaining employees. What has the technological advance accomplished? The owner of the business has saved nothing, although his labor force might be more loyal and content because of the better rate of wages. Total purchasing power has not been increased, since the additional money in the hands of the remaining employees is offset by the decline in income affecting the discharged men. And neither the consumer nor volume of

output are affected favorably, because with costs unchanged prices can not be expected to come down. The principal net change caused by this move has been to add 1,000 more men to the unemployed totals, without stimulating any other industry to absorb them.

Likewise, if the factory force is kept intact, with the same pay going to the same men, though they work shorter hours to turn out the required volume, there is no benefit to the economy. The men enjoy greater leisure, which is an undoubted gain up to a certain point, but aside from that the result is a standoff.

Or the manufacturer might pocket the million dollars saved by discharging unnecessary workers. Stockholders would gain in purchasing power, workers would lose—both by the same amount. Total expenditures for food and clothes would probably decline, while automobiles or reinvestment demand might increase. Again no positive stimulant for economic progress.

If instead of any of these methods, the manufacturer were to devote the bulk of the savings resulting from improved technic to a reduction in prices, he would be making a positive contribution to increased volume and a higher living standard for the whole nation. The consumer would be able either to buy more of his product or to use the saving to buy other goods, thus helping

many lines besides the one directly concerned. Since labor is also a consumer and one of the most important, it would benefit from the real increase in consumer buying power.

Demand for the particular product involved must be elastic if this process is to work in the ideal way. The automobile industry has experienced a direct increase in sales along with its strides toward the ultimate in efficient production. The result—higher wages, a greater number of employees, shorter hours, cheaper cars with consequent benefit to the consuming public, and generally rising profits for the owners of the enterprises. It has not worked that way for the railroads. Their improvements in operating efficiency have been almost as great, yet because reduced prices (rates) have been unable to stimulate growing demand for their product, the net effect has been a substantial displacement of labor. The fact that the workers remaining are paid better wages is no help to the broad situation with which the country is faced. Technological improvements are probably desirable under any conditions, but least so when they occur in an industry which finds it impossible to expand its markets, regardless of price.

#### Price as a Demand Stimulant

The farm problem is typical. Better machinery, fertilizers, methods, all have contributed to the unsettlement. When a plot of land and a certain number of workers can double wheat production, the drop in price does not mean an equivalent rise in consumption. Therefore men and possibly land are thrown out of their former employment. Consumers as a whole are benefited by the lower prices, and eventually this must react in favor of even the unemployed farm labor, but the distortion is so large that it persists for decades.

For technological advances to operate most smoothly in behalf of all concerned, therefore, they should be concentrated in the industries which enjoy some considerable elasticity of demand. They are doing such a job today in automobiles and airplanes, in Diesel engines and air conditioning; the building industry is apparently about to feel their stimulating effect. All sorts of ma-

chines and tools are moving into the diversified lines which make up the bulk of the economy, carrying on the process of producing more efficiently and in greater quantity.

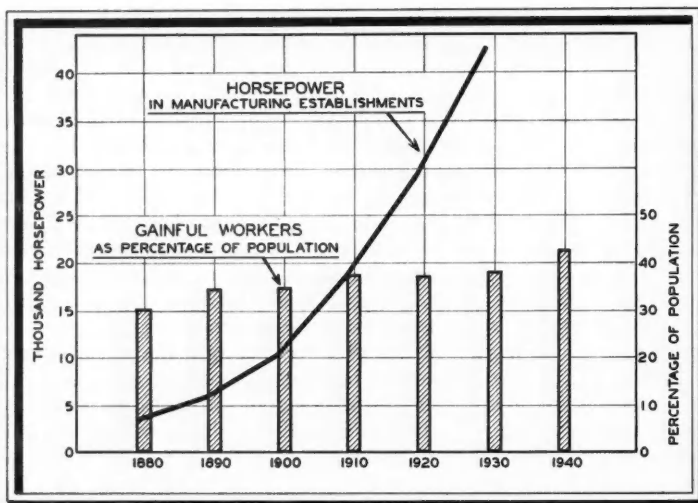
One of the outstanding single developments along this line has been the continuous rolling mill in the steel industry. This type of machinery has been accused of eliminating thousands of jobs as compared with the old hand rolling equipment. Charles R. Hook, president of the American Rolling Mill Co., estimated recently that the steel industry had spent \$500,000,000 on continuous strip rolling equipment up to the end of 1937. Between 1926 and that date the price of steel sheets declined 31 per cent and average earnings of workers in the industry increased 32 per cent. Between 1927 and 1937 employment in steel rose from 427,000 men to 544,000 or 27.4 per cent, while total population was gaining 11.2 per cent.

The object of installing continuous rolling mills at enormous expense was to save on labor costs. The result, however, was to stimulate demand to the point where total labor costs actually rose by a substantial margin. And the principal weakness in the whole sequence of cause and effect is shown when a depression makes all industries subject to an inelastic or declining demand. Fundamentally healthy steps in the right direction then appear to produce results that are all wrong—layoffs, wholesale dismissals, paycuts, and very little advantage to the consumer throughout. And that is the time when the capitalistic method of progress through invention and improvement makes its worst showing.

In theory business might be able to sit back and let the depression take its course, confident that the system must eventually prove itself again as it always has in the past by emerging into prosperity with new benefits to consumers and producers alike. In practice, however, there is the danger that too complaisant an attitude toward the rigors of a depression as they affect the worker may put the system out of business—even though it remains as sound as ever in its potential capacity for advancement. The problem, in other words, is a social and political as well as an economic one. It can not be isolated and approached as a condition in history. Preparations for the major dislocations caused by labor saving at times when production is declining must not be left entirely to government unless capitalism is willing to capitulate to still more benevolent bureaucracy.

With the Government taking more from business each year in the way of taxes, it is difficult to see how any adequate provision could be made by industry to take care of its own casualties in the employment zone. Yet an attempt must be made; or better, industry's share in the responsibility must be acknowledged. Otherwise, the vicious circle will continue—the people expecting more of government and less of business, while the government collects more from business in taxes to fulfill its eagerly assumed obligations.

A growing tax bill is something about which little can apparently be done at the moment. But at (Please turn to page 128)





Courtesy United Airlines

Passengers embarking for an overnight sleeper flight over the mid-continent route from California to New York.

## America's Fastest Growing Industry

**Ceiling and Visibility Unlimited, the Air Transport Industry Is Off on What Looks Like a Record Flight**

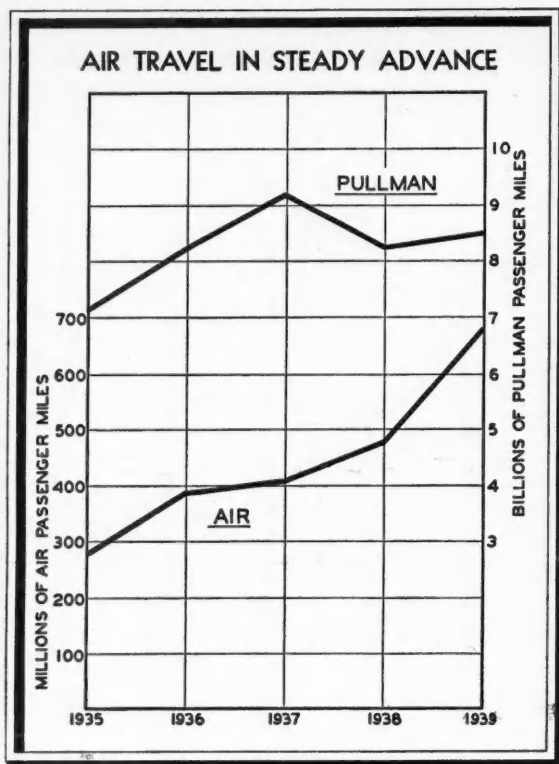
**I**F you happen to be in Los Angeles with an afternoon on your hands and a yen for a few hours' fishing off Catalina, the country's shortest airline (Wilmington-Catalina—31 route miles) will hop you out to the island in a Douglas amphibion in less time than it takes to get comfortably settled in your seat. And if, on top of that, you have important business in New York the next day, you can hurry back to catch the 4:30 Skysleeper out of Glendale in which the country's longest airline (American—6,521 route miles) will whisk you across the continent to North Beach, L. I., in time for early lunch. On both trips your chances for safe arrival are at least a million to one.

The odds are even better if reckoned on the unparalleled safety record hung up by the air transport industry in the twelve months ended March 26. In that period the nation's sky carriers flew 2,028,718 passengers a total

BY HENRY D. STEINMETZ

of 814,906,250 passenger miles without a single fatality—the equivalent of seven centuries' uninterrupted safe flight by a single individual. And the airlines are now grimly determined to extend that record through 1940. Whether they do or not, it is clear that air travel is rapidly approaching rail travel in point of safety and has left private automobiles and buses far behind. Steady, unspectacular gains in operating methods and technology have been largely responsible, but the dramatic element has not been entirely missing.

There is the story, for instance, of the mysterious crash of an American Flagship in the waste lands of Arkansas four years ago. Neither structural failure, engine trouble, fuel shortage nor any other rational explanation of the mishap was forthcoming but, *sub rosa*, a theory was advanced to the effect that a heavily insured passenger, in order to obtain double indemnity for his



family, had entered the cockpit and murdered the pilot. The tale may be apocryphal but the fact remains that the Government, upon investigation of the affair, ordered that pilots should henceforth see to it that cockpit doors were locked during flight.

Aside from suicidal passengers, there have been other problems to deal with. Those of wing, propeller and carburetor icing, for example, which have now been satisfactorily solved by means of rubber boots over pulsating tubes that break the ice as it forms, rings for directing the flow of glycerine-alcohol mixtures over the propeller blades, and non-icing carburetors. Also, radio facilities have been improved through such new wrinkles as the static eliminator introduced by United Air Lines and a virtually fool-proof homing beam developed by Sperry and Radio Corp. whereby the pilot can fly directly to the broadcasting station simply by holding his ship to a course that keeps an indicator arrow on his instrument panel pointing upward. One of the newest developments of all is the full-feathering propeller with blades that automatically flatten out completely in the event of engine failure, relieving the ship's other engines of the strain of turning over the dead motor.

These are but a few of the more recent technical improvements and others are constantly being introduced, for the promotion of greater safety in commercial flying is a continuous process and

with good reason. To the extent that it has been achieved thus far, it has paid off in cash; revenues are now mounting so rapidly as to mark air transport as the fastest growing industry of any importance in the United States.

From 1935 to 1939, passenger miles flown by domestic airlines have more than doubled, rising from 313,906,000 to 677,673,000. Biggest year to year gain of all, moreover, came in 1939 with a jump of 42 per cent. Dollar revenues from passenger business scored a like advance, with lesser but still substantial gains recorded in mail and express revenues. Overall gross last year was far and away the best in the industry's history and, judging by first quarter figures which showed passenger mileage up 65 per cent from the same period of 1939, another new record is in the cards for 1940. More to the point, some of these increases in gross are now coming through to net.

Of course greater safety is not the only factor contributing to the industry's rapid progress. More frequent schedules and faster flying times have been important. The two coasts are now only 15 hours apart and Chicago is a mere matter of four hours from New York. On the latter run, American, for example, has 14 round-trip flights daily, four of them non-stop. Also a factor is the matter of personal service—complimentary meals aloft and attractive stewardesses trained to call each passenger by name, answer questions and point out scenic spots of interest en route. Then, too, there are the improved types of equipment now in use. Sleeper and club planes have become common and in aircraft now building, private room and bath accommodation will be available. New planes will cut trans-continental time to 13 hours and some—the new Douglas DC-4 and DC-5, for example—will be equipped with tricycle landing gear, another safety device destined to become standard on all airplanes.

Fully as important as any of these in bringing air



Hot, full-course meals prepared in United Air Lines commissary kitchens make the dinner hour welcome to passengers flying on its coast-to-coast and Pacific Coast routes.

transport to major industry status is the decline in cost of air travel. Average fare in 1939 was little more than five cents a mile as contrasted with 12 cents in 1929 and 20 cents in 1926. The present rate is still above Pullman fare (including berth or chair and cost of meals), but the decrease over the past decade has been notably more rapid than in the case of either rail or bus fares and there is every prospect that the gap will be further narrowed in the future.

All of which would seem to indicate that air transport faces an extremely promising future—as, indeed, it unquestionably does. It would be a mistake, however, to assume that everything is therefore beer and skittles for the airlines. The industry has definitely emerged from the overcast, but there are undoubtedly air pockets and perhaps even a few line squalls ahead.

Biggest bogey of all is the matter of airmail rates. With all but two of 17 domestic lines in the black last year, even though infinitesimally so in most cases, the question naturally arises as to how soon and how much the Government may begin to prune its subsidy which, according to Post Office Department figures, last year amounted to \$8,734,935, or more than 50 per cent above total airmail postage receipts.

When the airmail contracts were abrogated in 1934, the airlines were deriving more than 75 per cent of their revenues from this source. By last year the percentage had declined to 32.7 and a further decrease is indicated for 1940. It is plain, however, that any drastic cut in mail rates in the near future would seriously affect most mail carrying lines. Fortunately, there is every reason to believe that no such cut will be made and that whatever reductions are forthcoming will not be such as seriously to impair the financial or earnings status of any company; commercial aviation is too important to national defense to risk deceleration of its growth and development.

Contrary to popular belief, it is not planned in the event of war emergency to rig transport planes with bomb racks and convert co-pilots into bombardiers. Rather, the airlines will perform the same function as now—fast communication and transportation—except that, as is currently the case with Britain's Imperial Airways, priority as to space will be reserved for the military. That is commercial aviation's wartime role, but its pre-war role is even more important.

Thus, its prosperity and growth are leading to the development of a far flung airport system that will be absolutely essential to the Air Corps in time of war. Again, it serves as an excellent testing ground and has saved the Army and Navy many dollars of indirect development costs that the services would have had to



Courtesy Douglas Aircraft

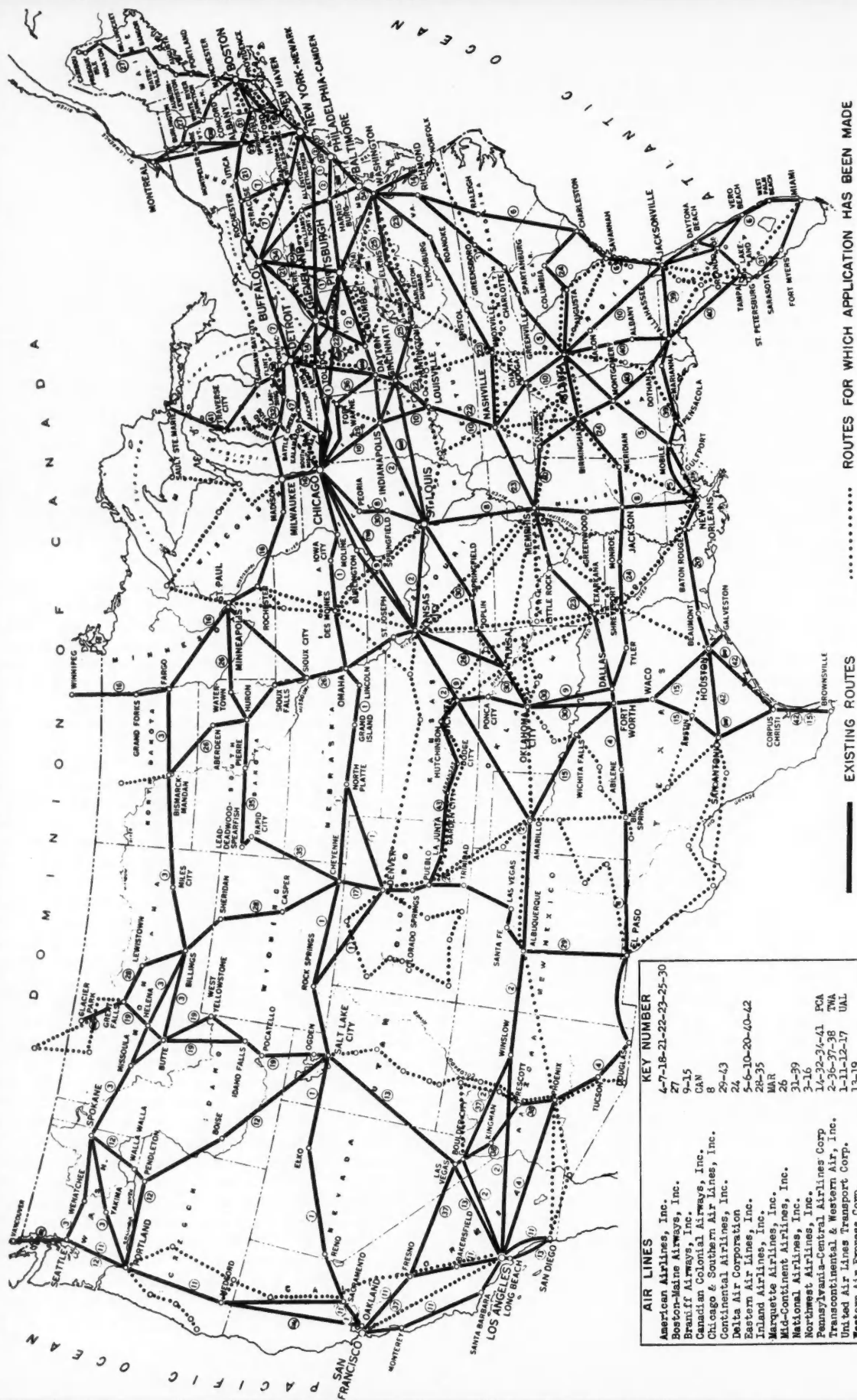
meet had not the air transport industry frequently opened the way ahead of them. The latter also pioneered in the matter of bad weather flying technique and, of course, both service and commercial operators have benefited through exchange of maintenance knowledge. Today, the Army and Navy always have a dozen or so officers on hand at the semi-annual maintenance and engineering conferences of the transport companies.

This is not to say, of course, that mail pay will not be pared with the passage of time. Such, indeed, is the declared policy of the Civil Aeronautics Authority which, however, is probably more concerned with the well-being of the industry it regulates than any other Government agency and holds that "reduction of the dependence of air carriers upon airmail revenue" must be a prerequisite or concomitant of rate cuts.

The mail rate question is not the only one the industry faces. The trend toward larger planes poses an ever-present problem. Bigger ships are now on order by all important lines and their initial operation—probably sometime in 1941 though TWA will begin this summer—will undoubtedly involve a temporary decline in load factors and a consequent brake on earnings. In the long run, of course, as passenger miles again move up in relation to seat miles (the industry's load factor reached a new high of about 65 per cent last year), larger planes benefit earnings since seat mile operating costs are lower.

Inauguration of new routes are also a continuing problem and, to some extent, an important cause of varying fortunes among individual operators within the industry. Thus, should United be granted the Boston-Hartford-Cleveland route for which it has applied to the CAA, or should Northwest Airlines be permitted to extend its service eastward from Chicago to New York via Toronto, competition would be greatly intensified along existing American lines in the Northeast. As is apparent from the map on page 84, total mileage of routes for which applications were on file at the beginning of the year

# DOMESTIC AIRLINES OF THE UNITED STATES



was about equal to that of existing routes. Fortunately from the standpoint of industry stability, the Authority exercises a good deal of caution in the assignment of new routes. The franchises it does grant are thus of real value, explaining how TWA, for example, can afford to pay \$350,000 for Marquette Airlines (St. Louis-Cincinnati-Detroit), which has no airmail contract and only four small planes but covers a territory that might easily feed TWA a lot more main line business.

Most of the industry's other potential worries, aside from those facing all business today, seem a long way off. The automobile and truck were what licked the railroads and the flivver plane and privately operated express plane will some day harry the air carriers. However, general use of the former is still some distance away and the latter will certainly have to be preceded by something like the "flying freight trains" that the president of American Airlines predicts within the next three years.

In any rapidly growing field, leadership, is apt to pass rather frequently from one concern to another and this is particularly the case in air transport. Varying types of equipment, route changes, management factors and the breaks of the game all contribute to the situation. Undisputed top dog today, American Airlines, for example, was only a few years ago floundering in the propeller wash of United and TWA.

Now operating under its fourth and best management regime, American is an off-shoot of Aviation Corp., achieving its independent status when the latter company split its transport and manufacturing interests pursuant to the Black-McKellar Act of 1934. American's system pretty well blankets the industrial East between Chicago, Cincinnati, Washington and Boston. Its main line, though, is the "Sunny Southern Route" which swings across the continent through the southern tier of states with principal stops at Nashville, Dallas, Tucson and a western terminus at Los Angeles.

The company's passenger business is considerably more important in relation to overall gross than in the case of other major lines (Eastern excepted), last year accounting for 72 per cent of gross. Its equipment is top flight, consisting of about 55 Douglas ships of the DC-3, DC-2 and DST types; in addition, it is currently taking delivery on 26 more DC-3s and has ordered fifteen 40-passenger DC-4s for delivery in 1941. Thus far in 1940, American has shown among the best traffic gains in the industry. Projecting gross on the basis of the most conservative of 1940 traffic estimates and assuming the company's operating ratio is no better than last year's, 1940 net per share should top the \$4.15 reported for 1939 by a good 50 per cent and could easily double or better, barring extensive debenture conversion.

Competing with American for transcontinental business are Transcontinental & Western Air (the self-styled "Lindbergh Line" until the Colonel was decorated by the Nazis) and United Air Lines Transport.

TWA's main route runs west from New York through Pittsburgh, St.

Louis, Kansas City, Wichita, Amarillo and Albuquerque, splitting at Winslow, Arizona, to reach both Los Angeles and San Francisco. This route structure is not particularly satisfactory. It lacks feeder lines (though acquisition of Marquette will help) and the western portion of the transcontinental route does not touch any important population centers between Wichita and the Coast. Remedy is being sought through application for new routes and new stops on present routes; the company's position has also been strengthened by virtue of recently obtained mail contracts over "Route 44"—Chicago to New York, Pittsburgh, Kansas City.

The company's fleet includes 12 DC-3s, 14 DC-2s and 10 DSTs. Also, by way of getting the jump on other lines which must wait until 1941 for delivery of larger ships from Douglas, TWA will soon take delivery of five new Boeing four-engine, 33-passenger Stratoliners, designed for "over-weather" operation and equipped with super-charged cabins. Tests and checks of the new planes will penalize second quarter earnings and, when the ships go into operation this summer, net will also suffer from a lower load factor. However, the company expects a 47 per cent increase in passenger mileage and thus may emerge from the red for the first time since 1936.

United's cross-country route is the northernmost of the three; west of Chicago it serves Omaha, Cheyenne, Denver, Salt Lake City and San Francisco. With its purchase of Western Air Express, recently approved by the CAA, the company has also gained direct entry into Los Angeles from Salt Lake, as well as feeders running north into Idaho and Montana. It has a virtual monopoly on western coastwise traffic, operating the only airways between San Diego, San Francisco, Los Angeles, Portland, Seattle and Vancouver, and also has feeders of considerable potential value extending from Salt Lake into the Pacific Northwest. As a former division of United Aircraft & Transport which, before it was broken up in 1934, also included the present Boeing Airplane Co., United was long partial to ships of the latter make. However, Boeings now comprise only about a quarter of its fleet which, including seven new DC-3s delivered since the beginning of the year, totals 57 planes; in addition, 10 DC-4s are on order for 1941.

United expects its passenger mileage this year to increase about 50 per cent from the 1939 figure of 148,897,353 and predicts a rise in (Please turn to page 123)

## Principal Domestic Airline Operators

	Common Shares	Earned Per Share		Price Range 1940		Recent Price
		1938	1939	High	Low	
American Airlines.....	353,320a	\$ .73	\$4.15	75	41¾	72
Boeing Airways.....	400,000	d .07	d .11	O. T. C.		10
Chicago & Southern Air Lines.....	100,100b	d .11f	.45f	NA	NA	NA
Eastern Air Lines.....	429,873	.84	2.06	44½	26½	40
Northwest Airlines.....	230,060c	.34e	.77e	O. T. C.		18
Pennsylvania-Central Airlines.....	250,000	d .08	0.35E	22¾	11½	19
Transcontinental & Western Air.....	950,000	d .93	d .23	21½	12½	19
United Air Lines Transport.....	1,500,451	d .66	.21	23¾	14½	21

a—Complete conversion of 4½% debentures of 1941 would increase common stock to 556,278 shares. b—Complete conversion of 7% \$10 par preferred would increase common stock to 170,100 shares. c—Small convertible preferred issue outstanding. d—Deficit. e—Four months ended October 31. O. T. C.—Traded over-the-counter. E—Estimated. f—Fiscal year ended June 30. NA—Not available.

# How to Rate War Earnings

## The Double Standard for Normal and Windfall Profits

BY WARD GATES

**R**EPORTS of first quarter earnings are for the most part out of the way and they confirm every hope that could have been formed last fall. The average large industrial enterprise increased its profits 50 per cent or better over a year ago. An impressive number of industries are breaking all past records, in volume or profits or both.

Yet the stock market is barely 14 per cent higher than at this time last year, when business was edging out of a slump that had set it back to a point considerably below current levels. All the dangers of threatening war were present then, but none of the stimulating effects. The conclusion seems to be a choice between calling prices too low today or considerably too high a year ago.

Behind almost every case of a stock earning a dollar a share in the first quarter and selling in the twenties or thirties, however, lies the explanation that the market is not yet convinced the new rate of earnings is permanent. Nothing can be more skeptical than a war market. It accepts swollen profits as potential dividends, but only in certain types of enterprises. In others it allows for the chance that the company earning five or six dollars a share during wartime may lose it all in a few years after peace is concluded, having given stockholders a merry time but no dividends. It happened too commonly in the last war to be ignored as a possibility now.

If it were certain that speculative confidence would grow with earnings, even if the increases in both were to be merely temporary, then this whole question would be less important. But lacking any such certainty, it is necessary to arrive at some way of relating the price of a stock to current profits shown. As a start, we might look at the record of 1914-1917.

The first thing that catches the eye in the table opposite is the \$95.40 per share earned by Bethlehem Steel in 1916. This was an increase of 775 per cent in two years and the stock naturally soared. Yet at its high for 1916 Bethlehem sold only a little over seven times earnings. The ratio today is about twice as high, based on the current price and last year's profits. Bethlehem, of course, was nothing like the company then that it is today, having neither the size, financial strength nor diversification of the present company. On the other hand, the examples shown in this table are by no means extreme. Where Crucible Steel changed a deficit into a profit of \$45.89 per share in two years, E. W. Bliss went from a deficit to earnings of \$418.61 per share in the same period and then back to \$89.57 in the following year. Johns Manville earned 12 cents a share in 1914, \$94.85 in 1916.

Part of this record is due to the fact that capital structures were smaller in 1914 and enjoyed much higher leverage. A good portion of the average company's capital was represented by bonds, in addition to preferred issues, and the common stock outstanding was likely to be relatively small in amount. Only two points are necessarily to be drawn from the records of the last war. Prices do not always discount earnings gains at the same rate, regardless of the cause of improvement. And there exists during any upset period a double standard of appraisal, drawing the distinction between this year's profits and those of the next five, ten or twenty. National Biscuit was hurt by a terrific rise in grain prices, so that its earnings dropped 30 per cent from 1914 to 1916, but the market recognized the condition as temporary and in no

### World War Prices and Earnings

	Earnings Per Share			Market Price			Price— Earnings Ratio at 1916 High
	1914	1916	Per Cent Increase	Low July, 1914	High 1916	Per Cent Increase	
American Car & Foundry...	def.	\$27.37a	...	44	80¾a	83	2.9a
American Smelting.....	\$6.00	23.30	288	50¼	122¾	244	5.3
American Woolen.....	def.	55.42a	...	12	58¾a	390	1.1a
Baldwin Locomotive.....	def.	34.52a	...	41	76½a	62	2.2a
Bethlehem Steel.....	10.90	95.40	775	30	700	2,330	7.3
Crucible Steel.....	def.	45.89	...	...	99½	...	2.2
National Biscuit.....	11.73	8.20	30d	120	130½	9	15.9
Sears Roebuck.....	11.36	20.69	82	170¼	233	37	11.2
United States Steel.....	def.	48.46	...	50½	129¾	157	2.7

a—1917. d—Decrease.

way impairing the ability of the company to make money and pay dividends in the longer future. Sears, Roebuck increased its business and its profits, but the high ratio of price to earnings was testimony to the fact that the cause of its prosperity was not fundamentally the war.

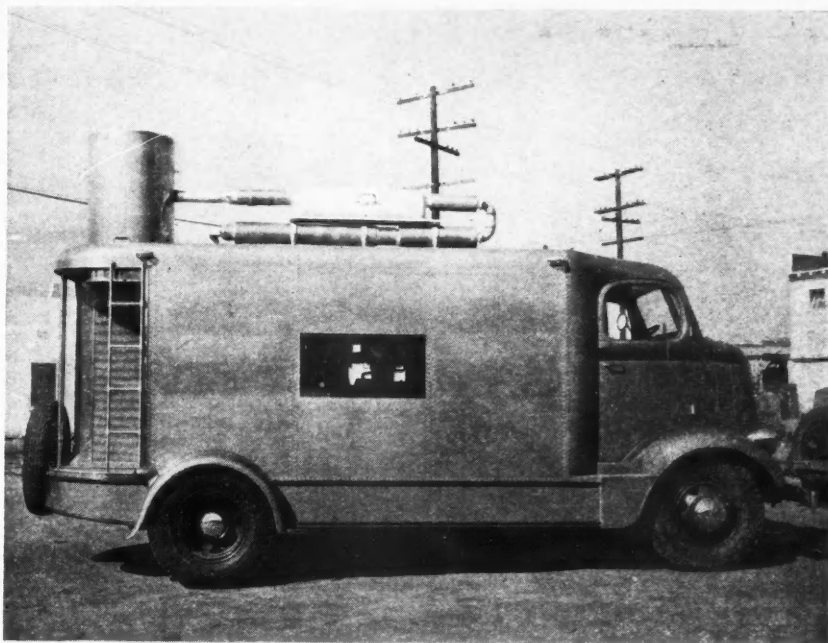
This double standard is fully as applicable today, and for as long as our present relationship to the war continues. Many companies will show profits several times as large as those of a year or two ago. Where the increase is directly due to war orders, common sense will indicate that, once the orders stop, earnings are likely to return to somewhere near former rates. It is necessary, in other words, to break down reported profits between normal earning power and windfall or non-recurring, exactly as one would in the case of a company cashing profits on a security transaction and reporting them as earnings.

If an approximate figure can be set for net income in an ordinary year when the indexes of business activity fluctuate somewhere near current levels—allowing for the trend of profits and volume in relation to general business—then that amount can be mentally set aside as subject to normal evaluation. Say the company we are interested in earned \$4 a share in 1936. This year we expect \$7 a share. The conservative treatment is to break down the \$7 into \$4 "legitimate" and \$3 "found money." The distinction may not be entirely fair, but it will serve its purpose.

Today the stock is selling at 45, although four years ago when earnings were much smaller it ranged for most of the time close to 50. If that ratio—twelve times earnings—were applied now it would indicate a price nearly double current levels. Even if the newly found earning power is not to last, it must be worth something, whether representing dividends of the future or additions to working capital and therefore to earning assets. However, some such valuation as three times war profits might be taken as a standard, along with the ratio of twelve times normal earnings. Three times \$3 plus twelve times \$4 would put the price of the stock at \$57 a share.

Having done this, it is necessary to go through the same process for several other issues in comparable positions. Otherwise no allowance could be made for the market's own changes in valuation of future earnings, the broad shifts in sentiment that move a market up or down independently of the facts it is supposed to interpret. Valuations of both normal and war earnings will need adjustment from time to time.

Entirely aside from business activity or sales volume of the individual company, several new questions are always opened by war—questions that offer no easy solution. Rising raw material costs are typical. When



Triangle

Mobile power supply for an encampment, a field hospital or a raided town. The truck can rush its diesel-driven generating equipment to the scene of action at fifty miles an hour, and furnish current so quietly a sensitive microphone can not detect it at a distance of 400 feet. This type of equipment means almost as much to belligerents as guns.

and if war exerts its usual effect on supplies of commodities, the manufacturer of trinkets or tractors is threatened with a squeeze unless he can raise his selling prices. In most cases this is perfectly possible, since the whole price level is rising at the same time, as it did in the last war and immediately afterward. The isolated lines in which retail prices are fixed must expect lower earnings, although as in the case of National Biscuit the effect on market valuation may be negligible.

Most industries are free to preserve their profit margins, even in the face of a Government anxious to prevent runaway prices. Most will show inventory profits during a war period, keeping their stocks high enough to gain by the process of depreciating the dollar internally. One result, however, can hardly be evaded. Higher living costs will mean higher wages. In the past there has been a lag of wages behind prices sufficient to protect industry from any losses on that account. The chances are that the same timing will prevail in the immediate future, if prices should actually persist in an uptrend, but this is an assumption open to debate.

For the investor the ideal solution of this problem is to concentrate in industries whose payrolls are relatively unimportant; the chemicals suggest themselves immediately. Or if one feels convinced that prices will rise, the producers of raw materials offer the most direct means of taking advantage of the trend, aside from owning commodities. The cost of living just about doubled in the last war and the two years following, with damage to many and profits for those who anticipated the jump.

One thing seems certain. If this country should enter the war a ceiling would be clamped down over all extraordinary earnings and a back-bending tax on the rest. Control of prices all the way (Please turn to page 126)

# Outlook for Paper Stocks

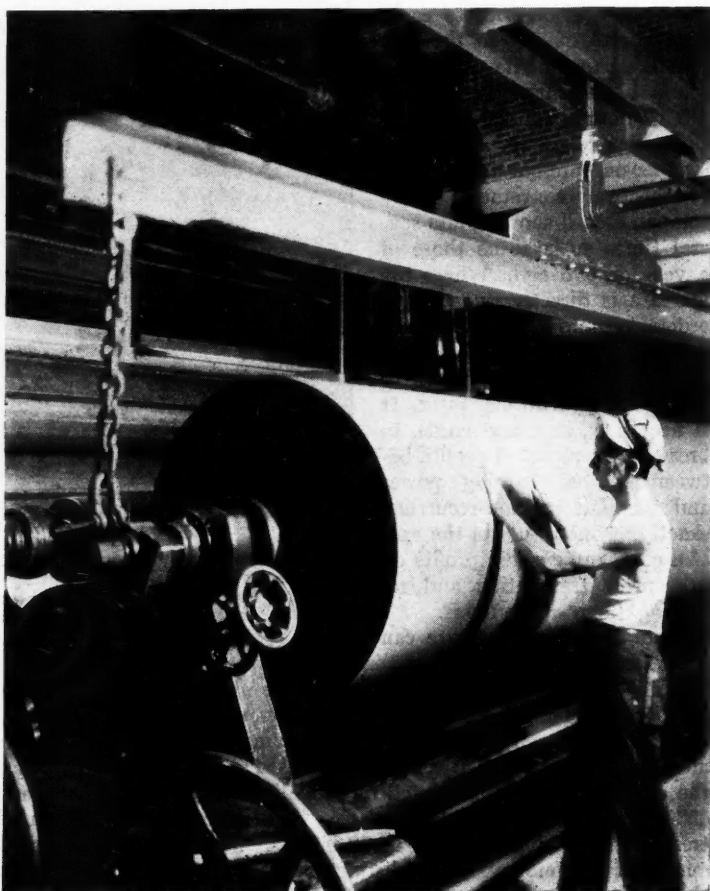
## The Scrambled Situation, Created by the Shutting off of Scandinavian Pulp from World Markets

By JESSE J. HIPPLE

THE German invasion of Norway has brought to realization many of the fears that have faced the paper industry since the outbreak of the war. While it now appears that Scandinavian wood pulp will no longer be available to any countries but Germany and Russia there are some possible developments that may in great measure counteract this currently unfavorable prospect. However, as the situation now stands, American paper makers are not all equally affected although unquestionably for some time to come pulp prices, as well as the cost of paper, will advance.

The situation of foremost interest to us at this time is that of our own paper makers and their prospects for profits in what is bound to be a sellers' market for paper products as well as raw materials. The making of paper is an ancient art but it is only within recent years that wood has become the main raw material for its manufacture. In order that the current outlook may be more clearly visualized it is therefore necessary to attain some idea as to the various types of wood pulps and their uses.

Wood pulps are divided into two broad classifications; mechanical and chemical. Mechanical pulp is the base for newsprint, which, as its name implies, is used mostly for newspapers although a considerable amount enters into the making of cheaper books, pamphlets and many printed items where paper costs are kept low. The chemical pulps are broadly divided into sulphite, sulphate and soda pulps. It is the sulphite and sulphate pulps, however, that are of the greatest importance to the paper industry for either as bleached or unbleached



*Courtesy of Union Bag & Paper Corp.*

pulps, they constitute the great mass of papers in general use ranging from the familiar brown wrapping paper and paper bags to good book and writing papers.

It is not to be expected that we will have any immediate trouble with our supplies of newsprint as most of it not made in this country is imported from Canada, which has both ample supply and facilities. However, it is not probable that we will be able to step up our taking from our northern neighbor nor is it probable that we can depend upon Canada for needed additional supplies of chemical pulps for reasons that will be pointed out later in this study. But, it is probable that the cost of newsprint will rise when third quarter contracts come up for discussion, due in some part to increased costs of manufacturing but mostly because of the fact that it will be a sellers' market, as pointed out in the opening paragraphs.

Inspection of our position as to the needs of chemical wood pulps and our dependence upon foreign sources for a part of our supply will serve to indicate just how serious the elimination of our Scandinavian sources of supplies may be. To do this we must use the figures of

1937 since there are not as yet any accurate, complete figures for 1939 and while we have them for 1938, that year was subnormal. In 1937, the paper industry in the United States consumed about 6,840,000 tons of chemical pulps. Of this amount, about 70 per cent was produced in the United States while the remaining 30 per cent was imported. Of the 30 per cent imported, about 80 per cent (1,830,000 tons) originated in Scandinavia and a few small European countries while 350,000 tons came from Germany. Today, our pulp production capacity is estimated to be approximately 6,740,000 tons of chemical pulp and 2,348,000 tons of mechanical pulp, apparently adequate for most of our needs.

### Pulp Mill Capacity Apparently Ample

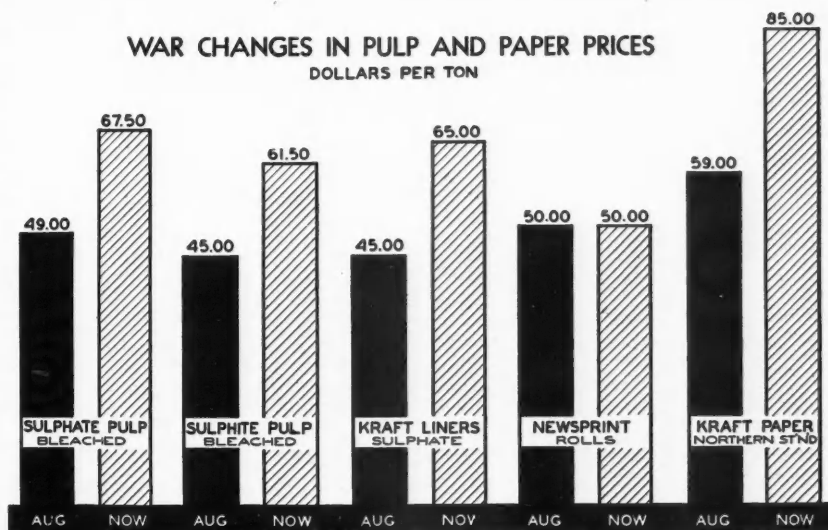
Experience has shown that production capacity is one thing and the ability to get the pulp out at a reasonable cost is another. A characteristic of the pulp industry is that the pulp plants follow the supplies of wood although, due to the nature of the machinery needed for a pulp plant, it is most times more economical to build a new plant at a new wood supply source than to move the old one. Thus, while we apparently have ample pulp making capacity to take care of our immediate needs it is not actually so for, due to the necessity of long hauls of pulp wood, quite a fair size proportion of the mills represented in the estimate have excessively high costs and are, under normal circumstances, unprofitable to operate. But these times are not normal so as long as the wood supply holds out and pulp prices are sufficiently high to warrant some profit from operations, even these marginal mills will be contributing their quota of pulp to our consumer demand.

Kraft paper, the familiar brown paper used for wrapping, cartons and for a host of other materials where strength is of paramount importance, is made from sulphate pulp. In 1937 the United States consumed about 2,870,900 tons of sulphate pulp of which 2,139,100 tons or about 75 per cent, was manufactured in this country. Of the remaining 25 per cent, 434,087 tons were imported from Europe and 82,180 tons came from Canada. On the face of it then it would seem as if we will be short about 12 per cent of our sulphate pulp requirements. However, this is not entirely so. It so happens that sulphate pulp can be made out of pitch laden pine trees, quite unsuitable to the making of sulphite pulp but nevertheless in abundant supply in our southern states, particularly Georgia and Florida. Since this is a relatively new industry in the South, capacity has not as yet been heavily built up although it is anticipated that during this year it can be expanded sufficiently to absorb at least part of our loss in foreign supplies of sulphate material. Canada can also step up her production capacity although it

is not probable that any of the augmented output will be available to the United States.

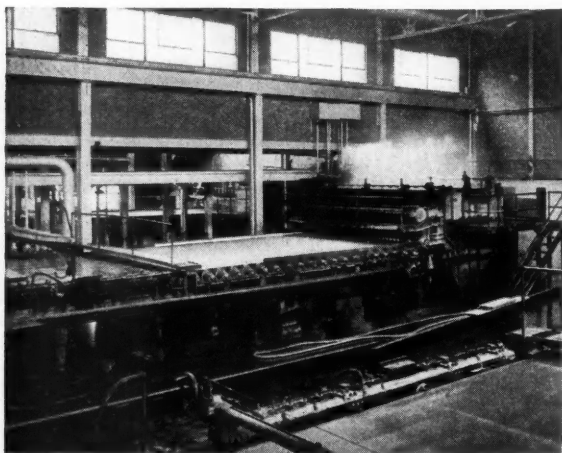
In regard to sulphite pulp, used for white papers, books and other of the better grades, we are not quite so fortunate. In the first place, sulphite pulp calls for the use of certain long fibred, non-resinous woods such as spruce, true firs and hemlocks. These woods are found in abundance only in isolated sections of this country which include the northern tier of states and the west coast. Not only is sulphite pulp the source of fine papers but is also the basic raw material for many types of rayon and other cellulose acetate products including the ubiquitous cellophane and its several near relations. It is in the making of sulphite pulps that most of the high cost mills, previously mentioned, operate. Our current production capacity for both bleached and unbleached sulphite pulp is estimated at 2,540,000 tons. In 1937 this country consumed 3,279,702 tons of which 2,140,000 tons were produced in the United States and the remainder, nearly 35 per cent of the total, was imported. Of the amount imported, about 254,000 tons originated in Canada thus indicating that in the sulphite pulp products we are facing a potential shortage of between 700,000 and 800,000 tons. Since sulphite pulp can be mixed with some of the older paper pulps such as clean rags, etc., we will probably have a fairly good supply of high grade papers although to the scarcity value of sulphite pulps will have to be added the high cost of the substitute materials which have previously been too expensive to use in any but the premium grades of book and writing papers. To a certain extent, bleached sulphate pulp can be substituted for bleached sulphite but the resulting paper lacks the quality, color and finish of that which is made from straight sulphite pulp or a white rag and bleached sulphite mixture.

While we have been talking about the possibility of making up our requirements from North American sources the entire situation is not quite as simple as it might appear. The United States is the greatest consumer of paper in the world but it is closely followed by Great Britain and France who, due to the absence of adequate supplies of suitable wood, are forced to import





Union Bag & Paper's logs are brought to the Savannah, Ga., plant by rail and truck as well as by water. The chain conveyor which begins the production starts the logs on their way to the chipper shown just above. After the chips are "cooked" they are beaten to a pulp which then enters the Fourdrinier or paper making machine—shown below—which processes it into paper. Photos by courtesy of Union Bag & Paper Corp.



a major part of their pulp supplies. In 1937, Great Britain and France imported about 4,312,000 tons of chemical pulps from Europe, of which more than 4,000,000 tons originated in Germany and the Scandinavian countries. Canada exported about 158,000 tons of chemical pulp to countries other than the United States of which a good part went to England and France. It is obvious that these two countries are facing a strong shortage of paper pulp which must be made up in some manner.

Operating as they do under war conditions, both England and France have it in their power to reduce the consumption of paper for all but military needs but it is doubtful if even the most drastic steps would make up for the loss of 4,000,000 tons of wood pulp. Both nations have already taken steps to conserve all waste paper for re-working and since paper can be used over and over again, waste stock will probably supply about 30 per cent of the needs. If consumption can be reduced 25 per cent and waste stock substituted to the extent of 30 per cent of the remainder it would still mean that England and France must find over 2,000,000 tons of wood pulp annually. Since Canada is a member of the British Empire it is possible for England to pre-empt a certain part of the Dominion's output and it is likely that she will do so although, despite Canada's rising production capacity, it is not likely that more than 300,000 tons would be available this year which would still leave the Allies with a shortage of about 1,700,000 tons. Such need presages active bidding for pulps in all available markets including our own. Added to this is the difficulty that Japan needs large quantities of sulphite pulp for her growing rayon industry as does Italy. Italy may be able to satisfy at least a good part of her needs from German sources although Japan is not quite so fortunate and will probably be forced to bid in the open world markets.

All of the foregoing is more or less borne out by recent developments in the pulp markets and the paper trade. Within the last two weeks, imported bleached sulphite pulp which has been available at about \$61.50 a ton and in fair supply is now quoted as high as \$75 a ton although domestic, contract pulp prices are as yet unchanged. Unbleached or easy bleaching sulphite pulp which only a few weeks ago sold for \$53 a short ton is now quoted as high as \$70 a ton. Because of the uncertainty as to replacements, most owners are reluctant to sell even at these relatively high levels. It must be remembered that during the last war some pulp sold at prices more than double those of the present time.

There are some mitigating factors despite the rather gloomy immediate outlook for new foreign pulp supplies. At the beginning of the year, many of the large domestic paper makers had supplies of pulp on hand sufficient to last at least six months at a high rate of consumption. At the time of the Nazi invasion of Norway there were approximately six weeks supplies on American docks and an undetermined amount afloat. This store assures adequate supplies for a while, at least, although it is possible that many paper companies will in effect go out of the paper making business and into the pulp brokerage trade. At the present time there is no pulp coming out of Sweden and the Russians have taken Finland's largest pulp mills. There is no hope (Please turn to page 127)

# Fairbanks, Morse — Likely to Set New Earnings Record This Year

**Favored by Strong Position in Diesel Equipment Field**

BY STANLEY DEVLIN

AS FAR back as 1830—while the bulk of the nation was still east of the Mississippi River—the name of Fairbanks was well known to anyone who might visit the village store or any place where it was customary to handle commodities according to their weight; for even at that early date “Fairbanks” was synonymous with scales. The Fairbanks, Morse & Co. organization of today is the outgrowth of that early business, although the original scale manufacturer, E. & T. Fairbanks, was not acquired until 1916. Fairbanks, Morse & Co. was begun in 1858 for the purpose of acting as western agents for the sale of the older company’s scales.

Even to this day, the name of Fairbanks, Morse appears on a wide variety of scales, but today’s micro-accurate, self-registering scales of many capacities have come a long way from the former beam and balance affairs so common a few decades ago; and the importance of the scales as a source of revenue to the company has declined as other products have been developed. Today, the Diesel engine in its numerous variations is the most important product, from whence approximately 25% of the company’s income is obtained.

The Diesel engine, a prime mover using oil for fuel and depending upon high compression alone for ignition of the fuel, was patented by Dr. Rudolph Diesel of Germany in 1892. The first practical machine was built in 1897, although the early engines often weighed as much as 250 pounds per horsepower, as compared with about 10 pounds per horsepower for the light engines of today. Even the larger engines used as motive power for our streamlined railroad equipment develop one horsepower for every seventeen pounds of engine weight. The first successful application of Diesel power for commercial use was made in St. Louis in 1898, but just a few years later there were literally thousands of Diesel engines in operation with rated output ranging as high as several thousand horsepower per unit.

Upon the occasion of an address before the American Society of Mechanical Engineers delivered in 1912, Dr. Diesel finished his address by saying “And I must call to your mind the fact that nowhere in the world are the possibilities for this prime mover as great as in this country.” The truth of Dr. Diesel’s prophecy is borne

out by the fact that Diesel engine sales have risen almost continuously since 1918, when about 100,000 horsepower was sold, compared with estimated sales of close to 2,500,000 horsepower in 1939 which was just short of the 2,600,000 horsepower peak sales of 1937, but about 30 per cent below estimated sales for this year.

Fairbanks, Morse was in an excellent position to enter the Diesel engine field for the company had been making internal combustion engines since 1893. The four-cycle, gasoline powered Fairbanks, Morse engine is still in good demand, although its importance as a company product has been overshadowed by the less competitive Diesel engine which Fairbanks, Morse is the second largest manufacturer of in this country. The company’s line of Diesels ranges from the 10 horsepower auxiliary engine, used to power pumps and generators, to the large, 1,400 horsepower engine used for marine power plants. In addition, the company makes engines for trucks, buses, and other automotive purposes, as well as 39 different types of stationary power plants for the pumping of fluids and the generation of electrical energy.

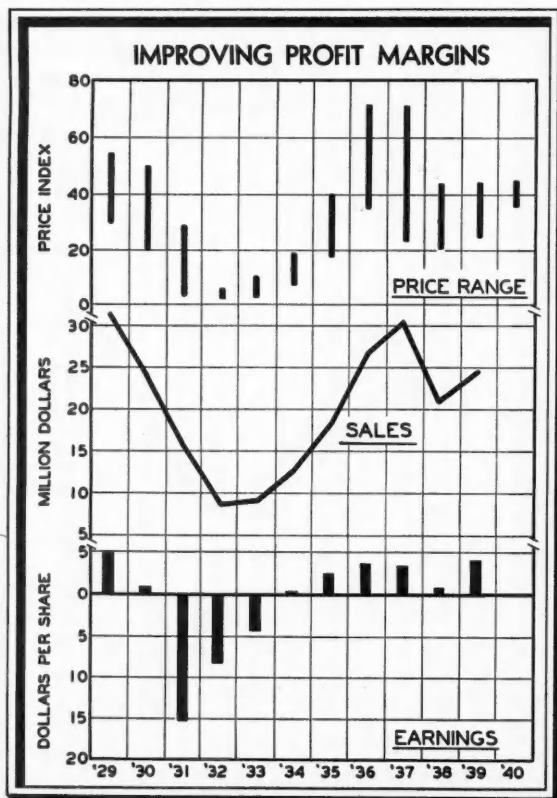
## Electrical Generators Important

It is in the generation of electrical energy that the company has an ever-growing field for expansion. In areas where public utility service is either non-existent or high priced many manufacturers are adopting Diesel electric plants to furnish their own power. Many municipalities are doing the same thing and even the public utilities themselves often install Diesel powered generators as “standby” equipment. A small Diesel powered electric plant designed for domestic use beyond the “high-line” is now on the market, priced at \$500, and this equipment is finding increased acceptance by small merchants and farmers, as well as many individuals whose public utility service is either undependable or too costly.

While Fairbanks, Morse makes the Diesels, it also makes the electrical generating equipment. Fairbanks, Morse electrical motors, made in sizes ranging from 20

horsepower to 10,000 horsepower, are an old, well-known and highly-regarded product. A more recent innovation is the entry into the fractional horsepower motor field where demand from the machine tool and household equipment makers has caused almost a shortage in the supply of smaller power suppliers. Generators to match every one of the company's many types of Diesel and other internal combustion engines are built, as well as special machines on a custom basis. Pumps, ranging in size from small engine cooling water circulators up to units of sufficient size for municipal water works, and a wide variety of sewage disposal equipment complete the line of heavier products.

The company has done considerable research not only to improve existing products but also to achieve a greater degree of diversification. Early in the depression Fairbanks, Morse decided to enter the household equipment field with a line of stoves and other devices which could be made in the company plants. The products were good but competition keen, so when demand for the company's more natural products again revived, manufacture of the household equipment line was discontinued. However, the company is still in the business of making some small equipment as witness the line of air-conditioning apparatus ranging from room-sized units to ten-ton self-contained, water-cooled devices for stores, offices and homes. Larger sizes are fabricated to meet all conditions. Automatic furnace stokers, ranging in size from the small, hopper-fed domestic unit selling for but a few hundred dollars to the large commercial, bin-fed machine, are also manufactured and larger installations are undertaken on a contract basis.



Axle driven electric generators for railroads and an engineering division for the construction of coaling stations and cinder conveyors, etc., complete the railroad activities, while the manufacture of many of the accessories for the company's other products rounds out the production line.

In order to finance many of the company's products which are not only high in initial cost as well as durable in the extreme, the company set up its own finance company as an additional service to the buyers. The financing division's earnings are reported separately, and while not important in comparison to the company's other income, they are, nevertheless, remarkably consistent.

### U. S. Navy the Best Customer

The company's customers are many and varied, although it is probable that the U. S. Navy is the principal purchaser of Fairbanks, Morse materials. Late last year it was understood that the Navy had placed orders for auxiliary cruiser and submarine equipment totalling more than \$12,000,000 of which about \$7,000,000 will be delivered this year and the balance in 1941. With an expected profit margin of 10 per cent, this order alone will add better than \$1 a share to common stock earnings. In addition to the Navy business, Fairbanks, Morse has always been well regarded abroad. Foreign sales in normal times have amounted to about 15 per cent of the whole, but with exports of German Diesels to South America and other neutral countries eliminated, Fairbanks, Morse will probably be one of the few American beneficiaries of prevailing conditions.

Last year's net sales of \$24,489,630 were not exceptional, being but 16 per cent higher than in 1938 and about 20 per cent lower than in 1937, but a greater proportion of net sales came down to net income with the result that common stock earnings per share of \$4.12 were the best in any year since 1929 when \$5.05 a share on a smaller amount of stock was reported. The total net income was the best reported in any previous year since 1926. Of course, part of the increasing carry-over of net profit to net income available for the common shares is due to the fact that the former preferred stock has been retired and the funded debt is steadily being reduced through action of the sinking fund, but a good part of the better showing is attributable to the fact that the types of products are changing and that the company is no longer quite so dependent upon special jobs subject to the usual contractual uncertainties and profit margins. In 1929, net sales of \$31,504,908 resulted in net income of \$2,348,672, equal to about 7 per cent. In 1939, net sales of \$24,489,630 produced net income—before the addition of "other income"—of \$2,322,928, or equal to better than 9 per cent. After the addition of \$146,955 net income of the acceptance company, net income was \$2,469,884. Taxes paid in 1939, exclusive of sales taxes, were \$1,167,633, or the equivalent of \$1.95 a share of common stock.

Further progress was made last year in reducing the amount of the funded debt as well as bank loans. The outstanding amount of 4 per cent Debentures due in 1956 was reduced almost \$500,000 to \$4,840,000 and a serial bank loan which amounted to \$675,000 on January 1

was reduced to \$475,000 by the end of the year. There was no change in the amount of common stock outstanding which remained at 599,595½ shares of no par value.

The company's normally strong financial position was continued throughout last year. Current assets of \$18,556,933 were more than five times greater than current liabilities and were again within \$140,000 of the post-depression high of 1937. Net current assets of \$14,996,000—due to lower current liabilities—were nearly \$600,000 greater than in 1937 and cash items of \$3,577,006 were the highest in any year of the company's history notwithstanding the fact that more than \$850,000 was used to retire bonds and bank loans. Inventories, priced at the lower of cost or market, were shown at \$7,120,321; about \$300,000 lower than in the previous year and \$2,500,000 below those of 1937. The ratio of net sales to inventory was nearly 3½-to-1, a very satisfactory showing when the nature of the company's business is considered. Foreign subsidiaries were further written down to where they are now valued at but \$69,000. Dividends on the common stock were continued last year with the distribution of \$1.50 a share and the declaration of 50 cents a share to be paid in March of this year.

Fairbanks, Morse has, in the past, reported operations in line with the general trend of heavy industry. While diversification of products will tend toward eliminating the sharpest dips and rises, operations and profits will continue to follow that of the capital goods group. However, due to the adaptability of many of Fairbanks, Morse's particular products to naval and maritime needs, it is probable that the sharply higher expenditures—both in fact and in prospect—for naval and merchant marine equipment will afford the company a better-than-usual amount of business over the next several years. The portion of the \$11,000,000 contract which is due for delivery this year will provide sufficient business to keep the plant employed at least 25 per cent of capacity for the balance of the year even if there were no orders forthcoming for Diesels, pumps, motors and generators, as well as the host of other products that continue in good demand.

It is probably in the Diesel field that Fairbanks, Morse will make the best progress during the coming year. For instance, Fairbanks, Morse Diesels are preeminently suited to railroad switching engines. In 1939, the railroads were credited with having purchased approximately 10 per cent of all of the Diesel horsepower sold during the year. If these estimates are correct, the railroads increased their purchases nearly 55 per cent over those of 1938 and almost ten times more than in 1936. The public acceptance of the new "Streamliners" has



Small work boats such as the tug pictured above were until recently the principal users of Fairbanks, Morse marine diesels.

prompted almost every road to install one or more of these trains and their number is growing. In most cases the motive power for the Streamliners is the Diesel engine, coupled through electric generators which adds flexibility to the unit. As the second largest producer of Diesels in this country, Fairbanks, Morse should obtain its full share of any available business.

Application to busses and trucks is also becoming increasingly important. The Diesel engine has much to recommend it to this type of service despite the high initial costs. Where rapid acceleration is not as important as continued, heavy duty power, the Diesel has no peer for low cost operation and dependability. At the refinery Diesel fuel costs about the same as gasoline, but since Diesel fuel carries no tax burden in comparison to gasoline it is in the tax feature that the Diesel becomes much more economical of operation. Of course, the relatively low price of gasoline in this country as compared with motor fuel costs in foreign countries is currently precluding many sales of Diesel equipment to short haulers, but for long hauls and comparatively gas-free operations the Diesel is fast replacing the more conventional gasoline motors.

Up until comparatively recently small boats such as tugs, fishing boats and pleasure craft were the principal users of marine Diesels. Now this source of power is being adopted by the large shipbuilders in increasing quantities. Last year it is estimated that American shipbuilders used eight times as much Diesel power as in any previous year, although as yet only about 25 per cent to 30 per cent of the newly-built tonnage is so powered as compared with nearly 100 per cent for Sweden and better than 55 per cent for the rest of the world. Of course, Fairbanks, Morse does not as yet build the mammoth engines used in great ships, but it has products that are highly (Please turn to page 126)

# As The Trader Sees Today's Market

## I. Recognizing Danger Zones II. Airlines or Manufacturers

BY FREDERICK K. DODGE

**T**HERE is scarcely a trader who at some time in his market career has not had the unpleasant experience of seeing himself sold out on a stop loss order only to have the issue in question immediately reverse its minor decline and resume a strong upward trend. The experience is not one conducive to rapt appreciation of the good and the beautiful in life. At the same time, if one is willing to give some thought to the whys and wherefores of the occurrence, it can be quite instructive from the standpoint of future operating technique.

In the chart on the next page, the price movements of U. S. Steel and Loew's, Inc., have been plotted over a period of some months. The pattern traced by Steel since late January is worth noting. Prior to that time, it may be noted, the price decline had been fairly continuous since late September. By February, however, "X" began to form a base or line, and by mid-March it was clear that something of a resistance level had been established around 56.

Now, it is common practice on the part of a great many traders in making use of stop loss orders to place them at or just under any resistance or support level that may have been established by an issue in the recently recent past. Should the stock penetrate that level, it is reasoned, it is generally headed for a substantial further decline. Consequently, a zone of stop loss orders is frequently built up at or just under the resistance level in the manner indicated by the shaded area on the chart.

We shall not discuss here the wisdom of selecting the general region of such resistance zones for the placement of stop loss orders; at times it is advantageous and at other times not, usually depending on the characteristic action of the stock in question, the major trend of the market as a whole and other factors. What *should* be stressed, however, is the importance of recognizing the existence of such a zone of stops and the advantage, in placing a stop, to put it as close as possible to the top of the zone. For, nine times out of ten, once the topmost stops are touched off, the others, packed closely together, will also go like a string of firecrackers. And, whether

the issue is subsequently to continue downward or, after picking off the stop loss orders, to turn upward as in the example shown, the trader whose order has been executed near the top of the zone is obviously one or more points better off than those below. If the stock continues down, he is out at a better price; if it rebounds, and he is sufficiently nimble, he can resume his long position at little or no net loss.

In the case of Loew's, it will be observed that the last likely resistance level and probable stop zone occurred some time farther back than in Steel, and that it has not since been put to test. Since then, however, no other clear-cut support level has been formed, the course of the stock having rather been that of a shallow, wavering but fairly steady rise. The zone established last fall is still of some significance though this will tend to diminish with the passage of time and will be superseded altogether with the formation of a later resistance level.

There are, of course, other technical danger zones than those created by the concentrated placement of stop-loss orders. One such, in a declining market, is the area of mass margin selling. An example of this occurred in 1937. In that year the market topped out in March, sank to what appeared to be a secondary low in June, recovered to an August top just below the previous high, and again turned downward.

Broadly speaking, the average prices of shares bought in the preceding six to eight months corresponded to a point in the averages approximately mid-way between the June low and the March and August highs, or perhaps slightly higher than that due to the greater market activity of the forepart of the year. Obviously, if the decline that began after the middle of August were to continue, it must soon reach a level where margin calls would begin to go out en masse. Moreover, with respect to traders who had been following a fully invested policy—that is, had been pyramiding, margin calls would begin in the neighborhood of levels corresponding to those of the June low point.



Actually, it was just this situation that developed, the decline gathering momentum as it approached the earlier June levels (where, incidentally, it also ran into an accumulated bank of stop-loss orders) and becoming a rout as it encountered the main belt of margin selling.

Returning a moment to the question of stop-loss selling as an accelerator of a general market decline, it is well to remember that not all of such selling arises from stops actually placed on the specialist's book. Many are "mental stops," not placed in advance, but previously determined by holders who have made up their minds to sell in the event that the market or the particular issue in which they are committed penetrates a previously established support point.

Danger zones are encountered on the upside as well as the down. Consider the case of an issue that has completed a long decline which, however, had been interrupted by a protracted sidewise movement at somewhat higher levels. During the period of this line formation, all accumulation in the stock occurred within a comparatively narrow price range. Subsequently, a large part of these buyers were left "holding the bag" as the price resumed its downward course. By the time the decline had been completed many of them had firmly resolved that if they could only get back their original purchase price, they would be fully content to get out.

The logical upshot is fairly obvious and has been witnessed time and again in various individual issues. As the stock recovers in price and approaches the level of earlier accumulation, it runs into more or less continuous selling that, unless new buying is unusually strong, may retard further upward progress for a considerable period of time.

Needless to say, there are no hard and fast rules for trading technique to be followed in order to circumvent danger zones of the sort just described. Ability to recognize them, however, is of considerable importance from the standpoint of successful trading operations.

### Airlines or Manufacturers

Managers of investment trust portfolios have had before them for some time the same question all of us have had—are the aircrafts going ahead too fast on the strength of war orders? Even if all the business materializes on schedule and turns out profitably, is it not possible that the prolonged rise in this group has made it vulnerable to a technical setback? Moreover, when considered as income producers, the companies in this fast growing industry will probably find it desirable to devote most of their earnings to expansion of working capital so long as sales volume outruns capacity.

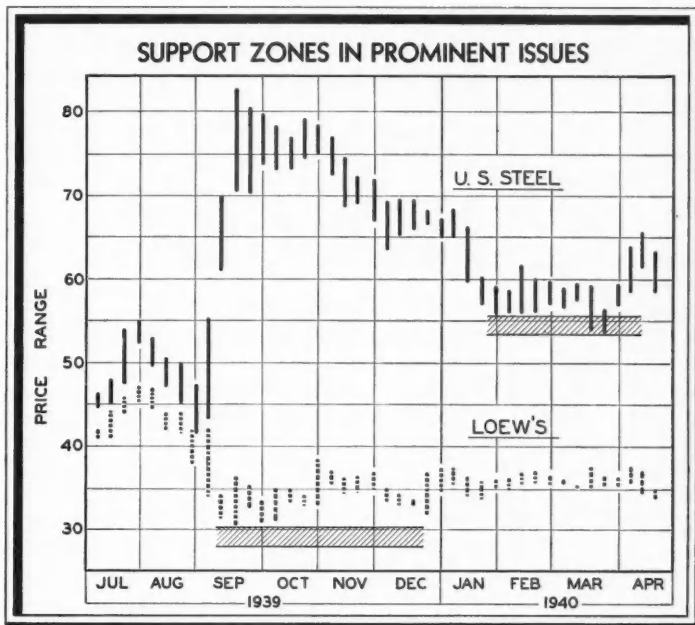
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Atlas Corp., which has been angling for a hookup with Curtiss-Wright, shows surprisingly little esteem for the industry in its year-end portfolio. The trust actually closed out its 2,000 shares of Curtiss-Wright A during the latter half of 1939, and its sales of 5,000 Glenn Martin and 2,000 United Aircraft during the same period eliminated those issues from its portfolio. The only representation in the industry left to it at the beginning of 1940 was a relatively unimportant commitment in Northrup Aircraft and a 3,000-share block of Sperry.

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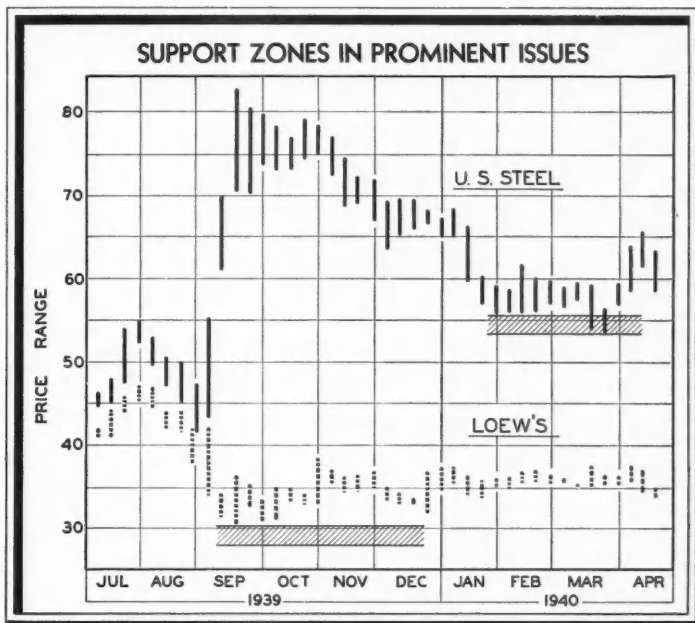
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# Food Machinery Corp.

**Continuing Growth Indicated, with Leasing of Equipment Easing the Cyclical Set-Backs**

BY PHILIP DOBBS

**W**HEN an enterprising Yankee named John Bean invented a new-fangled sort of horticultural spray pump and set about producing it commercially in 1884, he knew he had a good thing but could scarcely have foreseen the ramifications the business he had founded was ultimately to assume. As a matter of fact, he would have had to have been something of a wizard to do so for his company was a good 45 years old—practically in its dotage as corporations go—before it achieved Wall Street stature via the merger route.

The present Food Machinery Corp. was organized in 1928 as a consolidation of the original Bean concern and the Anderson-Barngrover Mfg. Co., a virtual upstart that had been in business only since 1902. Shortly there-

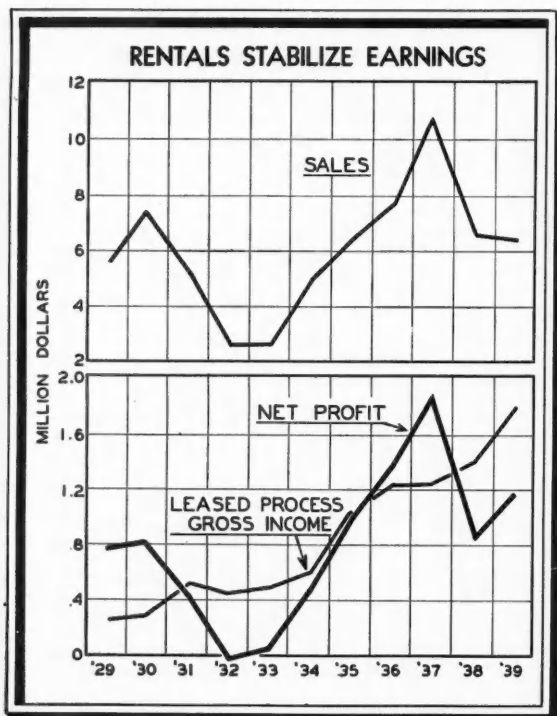
after, another corporate oldster—Sprague-Sells, chartered in 1886—was added to the family, and the rejuvenated combination took a new and active lease on life. Products then included the Bean horticultural and agricultural line, A-B's equipment for the fruit, meat, fish and milk canning and dried fruit packing industries, and Sprague-Sells' vegetable and specialty canning machinery. But that was only the beginning.

In 1929, six more companies were acquired, the most important being the Stebler Parker Co., a California manufacturer of citrus fruit packing house equipment. The Moe Iron Works was purchased the following year, and also the Cutler Manufacturing Co., engaged in the production of sorting, grading and packing equipment for deciduous fruits. After that the company took note of deepening depression, tightened its belt while sales slid from \$7,429,000 in 1930 to \$2,944,000 in 1932 and deferred expansion plans pending clearer economic weather.

By 1933 things were looking up again and the turbine pump business of Peerless Pump was acquired. Two years later Machinery Finance Corp. was set up to finance conditional sales, and four more concerns were acquired in 1936; among the latter were two companies making brace box, crate making and nailing machines, and another producing brand marking machines for fruits and vegetables. In Food Machinery's most recent fiscal year—that ended September 30, 1939—expansion was carried forward with the absorption of three more concerns engaged variously in the manufacture of turbine pumps, specialty canning machinery and equipment for preparing string beans for canning.

Needless to say, the company's product line by now pretty well runs the gamut of equipment for preparing foods for canning, packing and distribution. Specifically, F D M leases and sells, both wholesale and retail, spray pumps, turbine pumps, fruit and vegetable washers, box making, lidding and nailing machinery, fruit, meat, fish, milk and specialty canning equipment, sterilizing facilities, packing house and gasoline service station equipment the company also engages in the licensing of fruit preservative and coloring processes.

Because the food growing and packing industry is



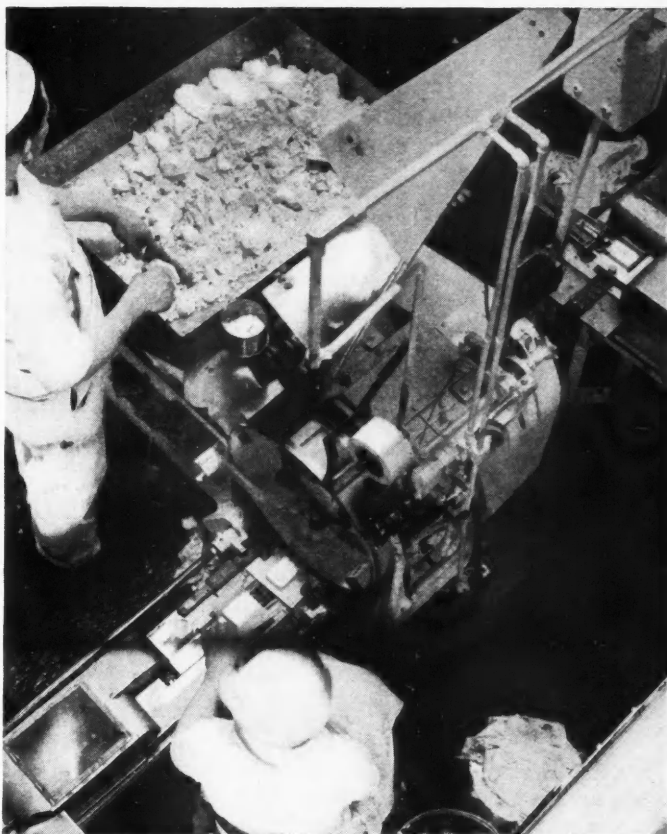
spread all over the map, so are the operations of Food Machinery. Activities are carried on in ten plants and foundries in California, Michigan, Illinois, Florida, Oregon, Ohio and Texas, while sales branches are located in San Francisco, Los Angeles, Fresno, Portland, Chicago, Baltimore and New York.

If quantity is any criterion, F D M is about the best managed company of its size extant. Though its greatest annual volume of business to date was \$11,964,000 in 1937, the company has no less than 24 officers, including nine vice-presidents, three assistant treasurers and seven assistant secretaries. But quantity does not always preclude quality and the company's management has done itself proud. Expansion is one thing and making it pay is quite another. That Food Machinery has been successful on the latter score is apparent from the record.

Best year profitwise in the company's history was 1937 when net income after preferred dividend requirements reached the equivalent of \$4.11 per common share. Depression brought this figure down to \$1.55 the following year, but in 1939 earnings recovered to \$2.32, still well below the level of two years earlier but comfortably in excess of 1929 and only slightly below the \$2.54 reported for 1935 on a 10 per cent smaller equity capitalization (after adjustment for a two-for-one stock split early in 1936). In only one year since organization (1932) have operations dipped into the red and then only to the extent of 20 cents per share. Dividends were omitted in 1933 and 1934, but since then have ranged between 50 cents in 1935 and \$3.87½ in 1937; distributions last calendar year amounted to \$1.37½ per share.

Concomitant with its expansion program, Food Machinery has also been reshaping its capital structure. In 1937 it forced conversion of its former 20,000 share issue of 4½ per cent preferred, replacing it with a new 40,000-share issue of like dividend rate, currently and until July 31, 1941, convertible into 1 7/13 shares of common and thereafter into 1 3/7 shares. Proceeds of the new issue, amounting to \$3,973,000, were used to retire \$850,000 of bank loans and to increase working capital. Subsequently, on September 30, 1939, one-half of the present preferred issue was called for retirement at 105, reducing annual dividend requirements by an amount equal to 21 cents per common share.

Apart from the preferred stock, capitalization consists only of 426,676 shares of \$10 par common against an authorized total of 700,000. The company has no funded debt or long term bank loans outstanding. Financial position, as of the end of the 1939 fiscal year, was strong, cash holdings alone of \$2,904,546 exceeding current liabilities of \$1,117,586, while total current assets amounted to \$9,629,070. The balance sheet revealed that about 55 per cent of the original cost of property, plant and equipment had been written off to depreciation, while inventories, down somewhat from the previous year-end, appeared to be at a comfortable level in relation to sales volume. Goodwill, patents and trademarks were carried at a nominal \$1.



Through its own product research activities and acquisition of other concerns in the field, Food Machinery has built up a broad line of equipment for use in almost all lines of food processing and packing.

Though the bulk of its revenues is still derived from outright sales of machinery and equipment, an increasingly important source of income to the company is from leased machinery, processes and royalties. Of recent years, the latter has been increasing steadily in relation to total sales volume and is considered by the management as a particularly promising phase of the company's business. In its latest annual report it states that "One of our most recent and novel developments just going into production is that of our Cutler Mfg. Co. Division in Portland, Oregon, for pitting maraschino cherries, which accomplishes a quality of work highly satisfactory to the cherry processors. The first royalties in this line will accrue in 1940.

"The continuation in the growth of evaporated milk revenues is also assured by the large number of new lines of equipment now being manufactured in the Anderson-Bargrover Division in San Jose. . . . We have also recently added considerable new leased equipment through our division in Harlingen, Texas, for our 'Color-Added' process on mature Valencia oranges and for our 'Flavor-seal' process on citrus fruits, tomatoes and cantaloupes, and also equipment for the extraction of juice from grapefruit.

"Without increasing prices, our gross profit has shown some improvement in spite of shorter hours and some wage increases, but the growing income from leased machinery and royalty has been the outstanding feature of this year."

(Please turn to page 126)

# Another Look at . . .

**El Paso Natural Gas**

**Warner Bros., Pictures**

**St. Joseph Lead**

**Endicott Johnson**

**P. Lorillard & Co.**

BY THE MAGAZINE OF WALL STREET STAFF

**W**E here continue our practice of periodically reviewing companies previously discussed at length. This gives us the opportunity for revising opinions if necessary, and for emphasizing the need for constant supervision of investments.

\* \* \*

Though the company is small as utilities go, **El Paso Natural Gas** has established an enviable record of increasing profits over the last few years. Selling its natural gas to both public utilities that distribute gas at retail and to copper mining and smelting and other industrial companies, it has managed to increase its sales materially in recent years. Expansion has been directed toward the Morenci districts in Arizona where several copper mining companies, among them Miami Copper and Phelps Dodge, are extending their operations. The approximate division of revenues is 46 per cent from utilities, 41 per cent from copper mining companies, 9 per cent from industrial concerns and the rest from the sale of gasoline, crude oil, and other by-products of the natural gas production.

The company's system extends from Southern New Mexico where gas is found in the Lea County field down into Texas, back up through New Mexico into Arizona. And a major portion of the expansion of the pipeline network has been financed through advances from the companies whose properties the new pipeline is especially designed to serve. Since contracts for gas are mostly of a long term nature, running from ten to fifteen years, El Paso has seemingly insured its position very well. Operations have been on a highly profitable basis for some years, and it is not unusual for the gross income to be almost 50 per cent of the gross operating revenues. And even after all charges have been levied the net operating revenue of the company is still close to 40 per cent of the gross income. Some doubt might be raised as to the ability of the company to continue on this basis. Thus far there does not seem to have been any difficulty on this score and last year's net was equal to \$3.73 per share as compared with a net of \$3.29 per share in 1938. Dividends have been conservatively established at \$2.00 per

share in spite of earnings that far out-range them and at its current levels of around 40 the stock yields only 5 per cent. Outranking the \$601,594 shares of common stock are \$9,215,000 in bonds, \$1,330,000 in bank loans, and \$1,479,700 par value of 7 per cent preferred stock.

The company had been discussed in **THE MAGAZINE OF WALL STREET** from time to time for several years and at lower levels. The last mention was in August of last year at which time the shares sold around 35 and were favorably regarded. With greater activity widely expected in the copper mining areas of the country, and other demands at least steady, El Paso's sales should continue their uptrend with the possible result that the current dividend rate might be increased. The shares might, therefore, be considered as having investment merit.

\* \* \*

**Endicott Johnson** is the second largest manufacturer of footwear in the country and has over a long period of years set an excellent earnings record. Profit margins are not wide though, and have tended to narrow still further of late as a result of increased competition, higher costs, and increased taxation. The sales trend which had been steadily upward for a number of years suffered a setback in 1938 with a drop from \$67,134,000 in 1937 to \$51,734,000 in 1938. Last year, however, witnessed a sharp recovery in both sales and earnings with the former up to \$58,525,000.

Production is divided approximately as follows: 40 per cent in work shoes for men, 12 per cent in dress shoes for men, 27 per cent in women's shoes, and 21 per cent in children's shoes. Incident to this production the company is the largest manufacturer of rubber heels and soles in the country. Practically all the uppers and sole leathers, trimmings, and shipping cartons used are also prepared or made in some portion of the huge plant. Distribution is through a chain of 500 company owned stores and through 30,000 retail outlets, chain stores and mail order concerns. The large number of workers have every consideration and receive every benefit of a working community with the result that when the N L R B

held an election last year to determine which one of the two major unions should do the bargaining for the employees the vote made history. Some 1,600 voted for the A F of L, 1,080 for the C I O and almost 12,700 voted against representation by any union at all.

The financial position of the company is traditionally strong with current assets at the end of the fiscal year last November equal to \$29,769,298 of which cash amounted to \$3,166,411, as compared with current liabilities of only \$6,243,626. The capital structure is simple with the 405,360 shares of common stock preceded only by 73,060 share of 5 per cent cumulative preferred stock. Net earnings last year came to \$3.07 per share, a sharp gain over the \$1.21 per share reported for the year before. Though last year was the first time in three years that the dividend has been earned, a regular \$3.00 per share disbursement has been made every year out of the strong surplus position. But this cannot continue indefinitely and unless the improvement made in profit margins last year can be retained, some downward readjustment may well be expected. The last discussion of the stock was in July, 1937, when the share sold around 54. The outlook was not considered favorable at that time and only once since then has the stock exceeded that level and then only by one point. At current prices of around 45 the shares sell to yield 6.6 per cent if the dividend can be regarded as safe. But the longer term outlook has not shown any marked improvement in recent years and holdings might well be considered in this light.

\* \* \*

**Warner Brothers Pictures** is one of the leaders in the hectic motion picture industry and has been for many years. As a matter of fact the production of film remains much more of an art than an industry in spite of the millions of dollars that go into important pictures and the large attendance at theaters. Profit margins are not impressive since out of income of \$102,083,131 from all sources last year, net profits equaled only \$1,740,907 or \$0.36 per share on the common as compared with \$0.41 per share in 1938. The latest report put the company on a war basis by segregating all foreign investments and assets from domestic holdings on the balance sheet. Out of a total of \$168,617,990, domestic assets were equal to \$164,420,721 and revealed the relative unimportance of the assets affected by the war. The capital structure of the company is made up of \$65,088,644 in funded debt (mostly long term) and an issue of preferred stock on which the unpaid dividends amounted to \$29.84 per share or over \$3,000,000 at the end of last year, and 3,701,090 shares of common stock.

Since the declaration of war in Europe, film rentals from that source have naturally declined somewhat and income has been further reduced by the drop in exchange values. But the domestic scene has shown steady improvement since the Christmas holidays and the increased spending power of the nation would indicate a continuation of this trend. The theater attendance cycle gathers momentum slowly, and with a good note already struck at the beginning of the year the industry expects to have a profitable box-office season. The refunding of a large bond maturity last year resulted in an

improved financial position for the company and this together with the present deflated market price around 3 lends interest to the stock as a speculative vehicle over the medium or longer term.

\* \* \*

**P. Lorillard** is perhaps best known as the maker of Old Gold cigarettes, which brand it has sponsored widely in recent years, but the company's products include Beechnut, Bagpipe, and Havana Blossom scrap tobacco, Planet and Climax chewing plug, Muriel and Rocky Ford two-for-five-cents cigars, and the rapidly gaining Sensation in the so-called 10 cent cigarette class.

From the sales of all these brands Lorillard last year realized \$79,798,000 of which \$3,846,442 was carried to net after all taxes, interest charges and other deductions. This was equal to \$1.69 per share as compared with \$1.78 per share for the year 1938. The drop in per share income in spite of greater sales volume reflects the gains in the cheaper brands of cigarettes on which the profit margins are lower and a decline in the sales of Old Golds as compared with the other leading brands. In a recent report the point was stressed that the advertising expenditures are at a rate which yields a profit on this brand. This is all very well for the short term, but not necessarily good over a longer period.

The market for cigarettes has reached a point where growth in total sales is gradual and any gains must, therefore, be made at the expense of other brands. When a tobacco company curtails its advertising, sales naturally coast along on momentum without any immediate ill effects. But inevitably the fickle public will be drawn over to more brilliantly promoted brands. The continuance of the present policy as regards Old Gold cigarettes must be interpreted as somewhat unfavorable over the long run especially since sales have been declining. And at current levels of around 23 the shares in spite of their 6 per cent yield remain relatively unattractive, in our opinion.

\* \* \*

The most important factor in the domestic industry, **St. Joseph Lead** accounts for over 25 per cent of the output of the soft metal. It is the owner of all the active mines in the rich Missouri Lead Belt, one of the world's largest sources of lead ore and confines its activities almost entirely to the one metal.

St. Joseph numbers among its customers some of the most powerful companies in the country and representatives of scores of industries. Since 1930 the manufacture of lead storage batteries for automobiles has taken the largest amount of domestic lead production, currently accounting for over 29 per cent of the company's sales. Other leaders are cable winding with 14 per cent and paint production with 13 per cent. In response to the higher rate of activity in the first two, sales of lead are at a high rate and the company estimates production at a level higher than last year.

The war has as yet not had any marked effect on St. Joseph, although lead concentrates from its Argentine mines have been brought to this country instead of being shipped to Belgium as heretofore. These mines have been under development for some time and give promise of profitable operation in (Please turn to page 128)

# Atlas vs. Hercules Powder

**Demand for Explosives Aided by  
Both War and Industrial Pickup**

BY WARREN KRAEMER

**A**TLAS POWDER and Hercules Powder were once part of the great du Pont clan, but a trust-busting court decided that 70 per cent of the powder industry was too much for any one company to control and in 1913 ordered the alleged trust's dissolution. Accordingly, Hercules and Atlas were incorporated, each given a number of powder plants in exchange for stock and bonds that were distributed to du Pont stockholders, and turned out in the business world to provide a lot of healthy competition for du Pont.

Hardly had the new companies grown used to their freedom when the World War broke out and brought them to the fore as manufacturers of essential munitions. Hercules, with twice the capacity of Atlas, got off to a good start by accepting an order for cordite that the British gave them on the tricky condition that they would tap no then known source of acetone. It considered vinegar at first, but there wasn't enough in the whole United States. And then it hit upon the idea of

using giant kelp from the ocean. This was successful and the company extracted enough acetone from seaweed to complete its contract at a handsome profit. After such a start it was not long before Hercules was the largest domestic manufacturer of TNT and was financing its plant construction through Allied advances arranged by J. P. Morgan & Co.

Atlas, while not so spectacular, managed to produce enough powder to jump profits from a conservative \$294,150 in 1914 to \$1,671,762 in 1915 and \$3,050,481 by 1917. The total profits for the five years from 1914 through 1918 came to \$10,248,477 and averaged \$37.72 per share on the outstanding stock. Hercules turned in its record high in earnings in 1916 with a \$16,000,000 net that brought the stockholders a dividend of \$95 per share.

Both companies realized that the lush profits from the war business were in the nature of a windfall and might be cut short at any time, but their approach to the problem of consolidating their position was different. Atlas expanded within the powder industry itself for the most part by acquiring all of the assets of the Giant Powder Co. in California and the Fort Pitt Powder Co. in Pennsylvania. It also took over several smaller concerns in the cellulose industrial finish and leather cloth manufacturing industry. Thus it gained wider geographic representation for domestic sales, but remained primarily a powder concern. Hercules, however, looked around for other fields to put its money into on a large scale. During the years right after the war it went into the naval stores business by buying the Yaryan Rosin and Turpentine Co., the most important unit in the industry, developed a wide range of new uses for the output



Triangle Photo

Thirteen tons of T.N.T. were set off at once in this blast.

of its nitro-cellulose division, purchased the world's largest chemical cotton plant at Hopewell, Virginia, and some time later took over the Paper Makers Chemical Corp.

The result was that within a few years after the war Hercules derived only approximately 30 per cent of its revenues from the powder divisions, while Atlas remained 70 per cent a powder manufacturer. And in point of profits the wisdom of the wider diversification has been apparent over the difficult years of the last decade. Hercules has had some sort of a profit every year although net dropped to 12 cents per share in 1932, but Atlas being more dependent on the rate of heavy industry lost \$1.92 per share in 1932. The dividend records of both concerns are excellent, with Atlas failing to make a payment in only one year, while Hercules has never skipped a year.

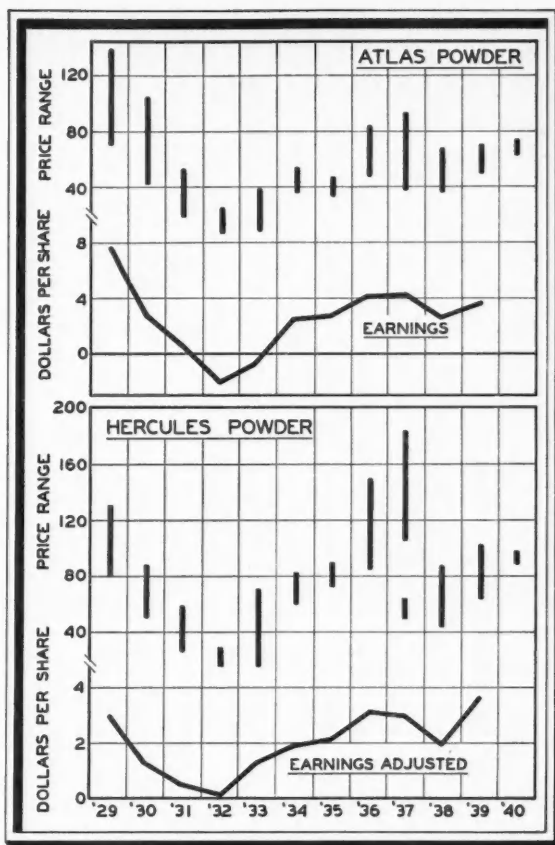
Today after a twenty-year cycle, Europe is again at war on a major scale and the Allied nations are once more seeking to purchase high explosives and munitions over here. But this time the companies have taken opposite stands for very good reasons. Hercules is not in a position to supply more than a small amount of the special explosives used in war, and it sells that production to the U. S. Government. It has taken the attitude that it is not interested in large scale orders from abroad. But Atlas has entered into an agreement with the Allies to supply a huge amount of trinitrotoluene (TNT). In order to manufacture the munitions the company is building a plant with the help of funds it obtained from France and England. The loan is for \$1,427,000 and was made in exchange for non-interest bearing, non-negotiable notes of which all but \$50,000 are due in 1950. The \$50,000 is due next year.

### Product Diversification

Atlas has been very active in research work during recent years, and the money that it stands to make out of the munitions contract with the Allies will in all probability go into the development of diversified lines of production. Since the funds for the capital outlay are coming from the purchasing countries, the company takes little risk and might well turn a pretty penny that will come in handy for financing expansion.

In addition to producing industrial dynamites and blasting powder in plants scattered all over the country, Atlas makes use of its by-products from the explosives division to manufacture cellulose finishes and coated fabrics. And it produces a line of heavy industrial chemicals that find a wide market. The industrial finishes are sold mainly to the automotive, radio, furniture and leather industries, but also go to the printing, luggage, electrical equipment, and packaging trades. The new hexahydric alcohols, manitol and sorbitol are used in the tobacco, paper, pharmaceutical, and textile industries. They are produced by the electrolytic reduction of sugars derived from corn; large scale manufacture started in 1937.

Atlas also owns most of the stock of the Darco Corporation which engages in the manufacturing of activated carbons. These are widely used for decolorizing and purifying cane, corn and beet sugar solutions, chemicals, oils, fats, glycerin, water, and dry cleaners' solvents. Sales approach \$750,000 annually and the corporation



has shown rapid growth in recent years.

Hercules does not break down its earnings into their five source divisions, but it has been estimated that with industrial explosives ranking first, cellulose products come second, paper chemicals third, Virginia cellulose fourth, and naval stores last.

When the company was first formed, black powder was the most important explosive for industrial purposes, but it is gaseous and unreliable and has since been largely supplanted by what are termed permissible explosives. Permissibles are dynamites of various types that can be used for underground work in dusty shafts and other gassy places. So expert have the chemists become in producing explosives that they are classed according to purpose and effect desired and can be handled without danger until the proper detonating steps have been taken. When glycerin is treated with nitric acid and sulphuric acid as a reagent you get nitroglycerin. This is murderous stuff that will explode at the slightest provocation (and sometimes without any provocation). But the addition of several binder compounds imparts stability to the "soup" and turns it into dynamite that is a well behaved explosive.

The precaution exercised by Hercules, Atlas and every other company engaged in the ticklish business of making these high explosives has actually brought the accident rate down below that of other industries. But an explosion in a powder plant is destruction on a large scale and so the skilled workers who handle the explosives must wear no metal and use wooden machinery for many operations. Finished products are stored in



**Purification treatment of Hercules' newly developed Chlorinated Rubber which is used for new type finishes for industrial equipment.**

individual little houses with extremely thick walls and flimsy roofs that are set apart from each other and the factories.

The production of nitro-cellulose is the next most profitable item on the Hercules list, and the company ranks the market in this field, with American Cyanamid a poor second. The company came close to selling its plant at Parlin, N. J., at the end of the war, but finally decided to hang onto it in case any use could be found for its production. The answer was the lacquer industry and more recently the plastics industry. Although the automobile industry is no longer an important customer since the development of synthetic glosses, the demand for lacquers is still heavy, and the ever-widening use of plastics makes the division a major growth factor in the company's set-up.

The paper chemical manufacturing of Hercules stems from the purchase of the Paper Makers Chemical Corp., and makes the company the largest producer of these essentials. Plants are operated in all the important paper making centers, and in addition the company has a group of rosin refineries, and an affiliated group of units for manufacturing soaps, soluble oils, and many industrial chemicals.

The Virginia cellulose division produces chemical cotton in the largest plant of its kind in the country. The plant was originally part of the war-time nitro-cellulose divisions of du Pont and was picked up at a bargain price. This division is one of the important suppliers of a basic material that goes into the production of acetate and viscose textiles. With the great strides in the sales of these materials this division, too, is doing very well earnings-wise.

The least important division as far as profits are concerned is that making naval stores. These take their name from the fact that since men first went down to the sea in wooden ships, pitch and pine tar have been used to caulk the seams of their boats. But today the

market is widely spread over the paint, soap, paper, linoleum, and copper industries. A good portion of the rosin was exported to Germany before the war, and this market has naturally disappeared, but the demand for the turpentine, pine oil, and rosin that the company takes out of the hundreds of thousands of tons of pine stumps that it macerates annually is holding well.

Far from being independent of one another, the various units of the company have strong inter-relationships, since the by-products of one division go into the others as essential raw materials. And the research department spends long hours smoothing out the production scheme, and in developing new uses and applications for its products. In relation to the size of the company, this division has a prince-

ly budget and acts as a guiding force rather than as an appendage. In the same way the salesmen of both Hercules and Atlas are for the most part highly trained men whose technical knowledge of the problems encountered in the industries they serve enables them to compete successfully with the greater organization and resources of the giant du Pont.

Practically 90 per cent of all industrial explosives are sold directly to the consumer and more often than not are designed for use in some special problem or situation. It is, therefore, immediately apparent why the salesmen for these divisions of both concerns must understand the tricky characteristics of their deadly stock in trade. And by encouraging the adoption of strict safety regulations and precautions throughout the industries that they sell to, high standards of efficiency have been set.

Financially both companies are strongly entrenched. Atlas started corporate life with assets of around \$7,000,000 and Hercules with assets of around \$13,000,000. Last year the statement of Atlas showed current assets of \$9,413,792 of which cash alone came to \$2,959,097, as compared with current liabilities of only \$1,303,153. And total assets footed up at \$22,420,219. This included 12,563 shares of its own stock carried at about 29 per share as against a current market value close to 74. Hercules showed current assets as of the same time at \$21,691,011 of which cash came to \$8,064,559, as compared with current liabilities of \$2,989,629, and total assets were carried at \$49,107,973. The treasury stock which this company also carries as an investment consists of 8,706 shares of preferred and 38,958 shares of common. These shares are carried at \$1,577,474, but have a current market value of approximately \$4,990,000. Both concerns, however, carry goodwill and patents at a considerable figure, \$4,053,000 for Atlas and an even \$5,000,000 for Hercules.

The capital structure is not (Please turn to page 125)

# The Bond Bulletin

— Price Trend Diverse  
— Investment Suggestions

Conducted by J. S. WILLIAMS

## M. W. S. Bond Index

	1939		1940		April 20	April 27
	High	Low	High	Low		
10 High Grade Rails .....	118.0	109.5	113.4	109.5	111.5	112.1
10 Second Grade Rails .....	42.9	31.3	37.0	35.4	36.2	36.4
10 High Grade Utilities .....	112.9	109.3	113.0	112.5	112.5	112.6
10 High Grade Industrials .....	111.7	104.9	112.0	110.5	111.5	111.3
40 Domestic Corporate .....	95.9	84.9	93.4	92.7	93.2	93.3

**B**OND prices over the past fortnight have registered gradual recovery, following the sharp decline coincident with the extension of the war to Scandinavia. The gains have been more uniform in the high grade section of the list, with second and medium grade issues lagging somewhat, apparently taking their cue from the stock market. Incidentally, sharp criticism directed against the Administration's "easy money" policy, notably by the Federal Advisory Council, found little or no response in the high grade bond market. Prices of high grade, or "money," issues would be found to be extremely vulnerable to any moves designed to raise interest rates.

\* \* \*

Cleveland Tractor Conv. Deb. 5's 1945: Issue is attractive speculative bond yielding a high return and promising price appreciation. Although charges were not fully earned in the past two fiscal years, finances are comfortable and earnings recently have shown a sharp improvement. Last year, company concluded arrangements with Montgomery Ward, B. F. Avery & Sons, and Massey-Harris for the distribution of its tractors and farm machinery. Two new low-price farm tractors have also been introduced. Recent quotation, 82.

\* \* \*

Chicago Great Western 1st 4's 1959: Recently quoted around 29, these bonds in the reorganization scheduled to become effective in the near future will receive \$285 in new first mortgage bonds, \$172 in general income 4½'s, \$516 in 5 per cent preferred stock and 3.44 shares of common stock. Holders of the first 4's not desirous of accepting four different issues of new securities might consider switching to the new general income bonds, currently quoted on a "when issued" basis around 30. Holders of the income bonds, upon conclusion of the reorganization, will be entitled to receive one year's full interest and may receive two years since interest for 1938 is cumulative. Last year earnings of the road

available for fixed charges under the new set-up would have been equal to twice the required amount.

\* \* \*

Lake Erie & Western 2nd 5's 1941: Outstanding in the amount of only \$3,600,000, there appears to be better than an even chance that this issue will be paid in full at maturity, July 1, 1941. The issue is an assumed obligation of the Nickel Plate and the fact that it matures prior to that road's \$12,800,000 3-year 6's, due Oct. 1, 1941, would seem to enhance the probability that it will be met without difficulty. (Please turn to page 128)

## New Issues Marketed or Planned

Issue	Amount	Price
Jersey Central Power & Light Co. 1st mtge. bonds due 1964 .....	\$39,000,000	*
Serial notes due 1940-1949 .....	3,225,000	*
McCrory Stores Corp. Debentures due 1955 .....	\$ 3,000,000	*
Southern Advance Bag & Paper 1st mtge. 4½'s due 1955 .....	\$ 3,200,000	*
Superior Oil of California Debenture 3½'s due 1950 .....	\$10,000,000	100
Toledo Edison Co. 1st 3½'s due 1970 .....	\$ 3,000,000	104½
Debenture 3½'s due 1960 .....	7,250,000	102
United States Steel Corp. Serial debentures due 1940 to 1955 .....	\$75,000,000	*

\*—In registration.

## Important Bond Calls

Issue	Amount	Price	Date
Inland Steel Corp. 1st mtge., Series "D" 3¾'s due 1961 .....	E. I.	105	6/20/40
Kansas Gas & Electric Co. 4½'s due 1980 .....	E. I.	101¾	5/25/40
New Jersey Water Co. Debenture 4s due 1950 .....	E. I.	101	6/18/40
Toledo Edison Co. Debenture 4s due 1948 .....	E. I.	102	5/23/40
United Biscuit Company of America Debenture 5s 1950 .....	E. I.	105	5/13/40

E. I.—Entire Issue.

## Stability of Major Activities Allows the Leading Unit In Its Field to Spread Into More Volatile Lines

BY J. C. CLIFFORD

**G**ENERAL AMERICAN TRANSPORTATION has capitalized handsomely on the fact that it is more profitable for the railroads to lease than to purchase fleets of specialized cars. The company rents its 58,000 freight and tank cars by the week, month, or trip to 22 roads that operate in 25 states. They are thus saved the expense of owning equipment that is used only occasionally, and the law of averages works in General American's favor to insure that when its cars are not in demand for one road they will be needed by another.

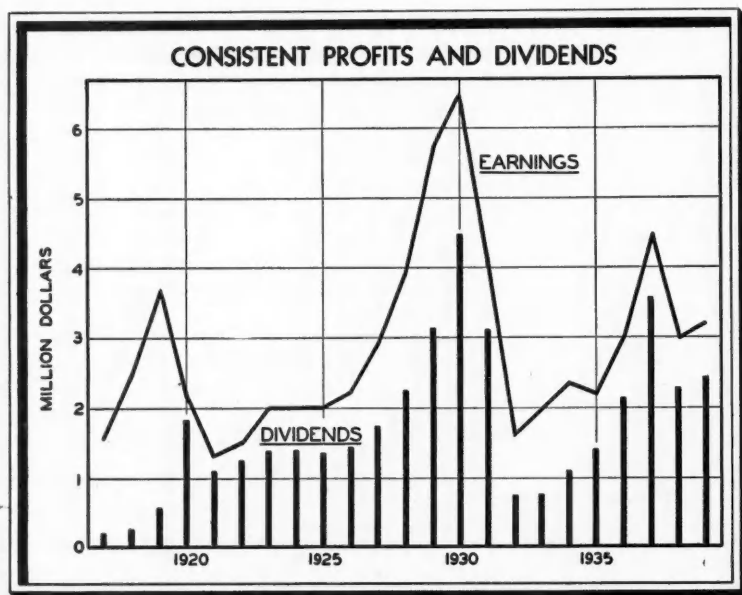
The enterprise was begun in 1898 with a few second-hand refrigeration cars under the name Atlantic Seaboard Dispatch, and has grown in time to be the largest operator of leased cars in the country. The nation's railroads themselves own over 1,680,000 freight cars but of that total only 8,000 are tank cars and 22,400 refrigerator cars, while General American alone has approximately 38,000 tank cars and 18,000 refrigerator cars. Since the individual roads cannot keep this special type

of freight car fully employed it is not good economics for them to invest capital in their purchase. They have, however, come to rely on General as a convenient and cheap source of supply when the need arises.

The other important factor in the company's car leasing activities is its attention to the requirements of important individual shippers. As they grew in size many concerns gradually built up fleets of tank or refrigerator cars—but later found them an expensive investment. Mutually profitable agreements have, therefore, been worked out in many cases between these companies and General American. General buys the cars and at the same time gets a long term contract to handle all the seller's shipping. The more important purchases under this plan include the entire Procter and Gamble fleet, 6,000 cars from Swift, 500 from Armour, and 4,660 from the Texas Co. The contracts run for five, ten, fifteen, or as long as forty years.

The flexibility of its system as well as the wide diversification in its equipment enables the company to serve a large number of industries. Among its fleet are tank cars lined with nickel, rubber, lead, glass, or aluminum. They are used in handling an endless list of perishable and liquid commodities including milk, meat, seed oils, gasoline, chemicals, wine, commercial acids and liquefied gases. Constant research has developed special types that can be used to transport fertilizers or dangerous chemicals with speed and safety—thereby greatly reducing the shipping risks and the freight charges.

The earnings of the company are of a relatively stable nature and have not been hurt by the stiff competition that the rails in general have had to contend with. Although over the ten-year period from 1929 the railroads suffered a 34 per cent decline in overall traffic and a 43 per cent decline in operating revenues, General American's gross income, which stood at \$30,181,000 in 1929, was



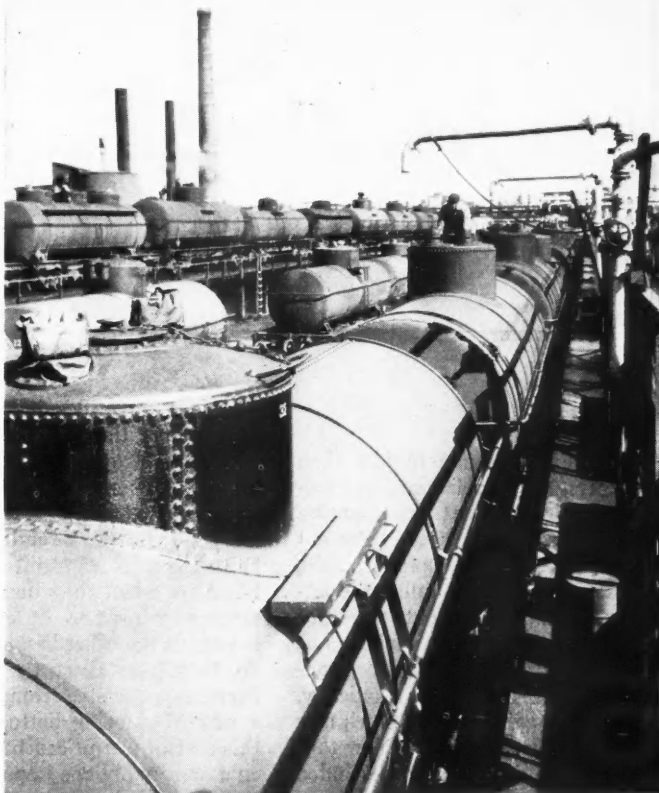
\$27,820,000 last year. Pipelines account for the major portion of the long haul gasoline and oil business, but the company's interests are spread over such a wide field that this is not important, and as a matter of fact most of its petroleum hauling is done over short distances of less than 250 miles, where the pipelines cannot hope to compete.

The 58,000 cars that the company has in constant operation naturally require repairs and replacement work continuously so that an extensive servicing system has been developed with 37 plants scattered throughout the country in strategic points. As an outgrowth of this the company began to manufacture cars and sell them to the railroads. Since the mere maintenance of its own fleet keeps the shops reasonably busy, new construction work on contracts can be done at a comparatively low cost, and the three plants that are devoted entirely to this work are not subject to the costly shutdowns faced by the concerns whose sole income is derived from rail equipment work. The manufacturing capacity of the company's shops is only around 20,000 cars annually though, or slightly over 9 per cent of the industry's capacity. But the low break-even point makes this division a highly profitable one during the buying spurges of the railroads.

In addition to meeting General American's own needs for tank cars and other special units, its plants are prepared to turn out freight cars of all types including steel coal cars, box cars, flat cars, automobile cars, refrigerator cars, livestock cars, and a wide variety of special cars designed to handle every liquid that can be shipped in bulk. The manufacturing capacity of the Sharon, Pa., shop is approximately 30 tank cars per day and places the company far ahead of the only other domestic tank car builder, American Car and Foundry.

Linked to the leasing activities of the company are the operations of five terminal and tank storage depots which are located on the coast at vital points and can handle over 5,000,000 barrels of vegetable oils, whale oil, molasses or petroleum products. At Corpus Christi, Texas; New Orleans, La.; Carteret, N. J.; Good Hope, La.; and Houston, Texas, these depots expedite transatlantic and coastwise shipping and provide convenient storage capacity for commodities that are to be shipped inland at some later date. Profits are estimated at \$500,000 from this division last year and are relatively stable at all times, since during slack business periods there is an increase in demand for storage space on the part of merchants who wish to hold their commodities against a rise in price.

General American has carved out an economically sound and profitable position in the railroad industry of the nation, and now it has made the first moves towards establishing itself in the other fields of transportation by purchasing an interest in a motor coach manufacturing concern, and making substantial investments in both the manufacturing and the transportation branches of aviation. With the reorganization of the Pressed Steel Car Company in 1936, General American stepped in and



Gendreau

**General American is the largest manufacturer and lessor of tank cars in the world.**

bought a large block of the 1st preferred stock of the new concern at \$5 per share. These holdings are currently estimated to be approximately 150,000 shares and have a market value of around 12.

Pressed Steel Car is the third largest car builder in the country and although operations have not been profitable in the last two years, they were in the black during the last quarter of 1939 and are currently on the right side of the ledger. The company recently brought out a new light weight passenger car in competition with Pullman and Budd, and is expected to become an important factor in this growing field. Together with Pressed Steel, General American bought the motor coach manufacturing divisions of Gar Wood Industries last year, and organized them into a separate company. Production has already begun on rear-engined, streamlined buses and since this is also a growing market, the investment may turn out to be an excellent one. Operations are closely watched by General since it has the controlling interest in the new company.

The fifth and last field in which the company has an interest is aviation. Just recently 160,895 shares of Aviation and Transportation Corporation were purchased, which represents approximately 7 per cent of the holding company's common stock. Aviation and Transportation controls Aviation Corp., which in turn has excellent investments in American Airlines convertible debenture bonds. These bonds, when (Please turn to page 126)

# For Profit and Income

## What Price Steel?

For the third time in less than two years, the steel industry has succumbed to cut-throat price tactics. This time price reductions have not been so severe as in October, 1938, or in May, 1939, but unlike the latter two instances, the cuts were not wangled by the motor makers but were precipitated by the steel concerns themselves and, ironically, have not brought forth as much new business as was expected. Now that bargain prices have been rescinded (as of May 1), the question arises as to whether another period of unsettlement may not be seen later on when Detroit is ready to enter the market in quantity or, indeed, whether unsettlement may not simply continue in the form of shaded

list quotations despite official restoration of the latter.

There is the possibility, of course, that these periodic price jags may not be quite so bad for steel as they are painted. They tend to give the lie to the political chant of monopoly. Also, when they don't result in much new business, at least nothing is lost; on the other hand, when they do, they forestall costly shutdowns. Moreover, the steel companies have a way of showing better profits on this sort of low-priced business, given a reasonably good operating rate, than most observers are wont to anticipate.

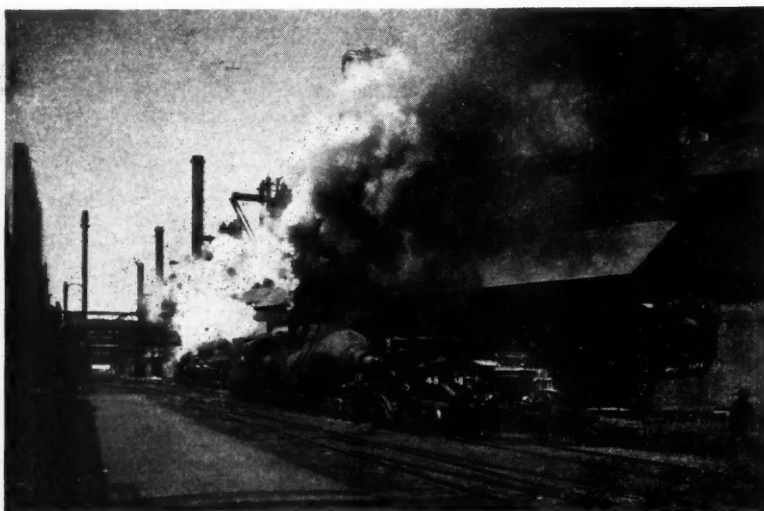
## Highlights of Annual Meetings

Stockholders meetings are becoming an increasingly important source

of corporate information. Some recent highlights — **Union Carbide:** Operations of recently acquired Bakelite Corp. have far exceeded expectations. Company's two plants in Norway represent a "not inconsiderable" investment. \* \* \* **Goodrich:** "Unless there is some upward adjustment of finished goods prices, profits for the full year cannot be expected to equal those of 1939." Company is in a position to make substantial contributions to the use of synthetic materials in place of plantation rubber. \* \* \* **Borden:** The already negligible returns on fluid milk business have been further reduced by the cost of introducing the two-quart fibre container. \* \* \* **Youngstown Sheet & Tube:** Exports now account for a considerable portion of operations. "... if the war continues, countries not at war will have to depend more and more upon this country for their normal requirements." **Oliver Farm Equipment:** Export business, accounting for about 10% of total volume, has not been adversely affected by the war. Domestic prospects are encouraging.

## Retail Trade Up

Government reports indicate a general rise of independent retail store sales in March amounting to 23% over February and 6½% over March a year ago. Even more promising is the recent trend of department store and mail order sales. Department store volume, which slumped after Easter and has also been retarded by poor weather, is now on the upgrade and, for some stores, has pulled ahead of last year. The two big mail order houses, Montgomery Ward and Sears, Roe-



U. S. Steel's principal subsidiary, Carnegie-Illinois, a part of whose Gary Works is pictured above, exercised its customary leadership in recent steel price movements, cutting cold and hot-rolled sheets and strip \$4 a ton on April 12 and rescinding the cut May 1st of this year.

buck, did not do so well early in April but improvement more recently may have been enough to lift the month's total above that of April, 1939, making it the eighteenth consecutive month for which a year to year gain has been recorded. Both companies had special bargain sales weeks last month.

### Low on Earnings?

Any company engaged in international shipping, especially in European waters, is subject to some pretty obvious hazards these days and its shares are not entitled to anything approaching a normal price-earnings rating. However, it may be wondered how far this reasoning may logically be carried marketwise. American Export Lines, operating between American Atlantic, Mediterranean and Black Sea ports, reported profits of \$2.58 per common share last year against \$1.45 the year before, and 1940 first quarter net is believed to have been in the neighborhood of \$2.50 per share—which would mean that at recent levels the stock has been selling at less than 7 times first quarter earnings. Incidentally, an examiner for the Civil Aeronautics Authority has recently recommended to that body that the company be permitted to commence its transatlantic air service in competition with Pan American.

### New Products

U. S. Rubber reports that it is producing a new bullet-resisting, self-sealing tire tube for military vehicles, the product being something in the order of the self-sealing gasoline tanks with which German bombers are reportedly equipped. \* \* \* Du Pont has announced that Nylon, the synthetic organic from which the company is making brush bristles and a silk-like fibre for hosiery, can also be used to produce synthetic wool. However, it is not planned to manufacture the latter product on a commercial scale in the near future. \* \* \* Rubber jars for preserving fruits and vegetables may soon become common, judging from the results achieved by Goodyear Tire & Rubber in its experiments with Pliofilm. Use of the latter material makes possible a 36% weight saving over glass, and original cost is lower.

## Outstanding First Quarter Earnings

Listed below are companies whose first quarter year to year profit gains were well above average. The list is not all-inclusive, but illustrates the satisfactory results apparent in many diversified lines despite a declining trend of general business activity in the first three months of the year.

	Earned Per Share 1st Quarter			Earned Per Share 1st Quarter	
	1940	1939		1940	1939
Allegheny-Ludlum Steel.....	\$ .75	\$ .12	General Cigar.....	\$.41	\$.10
American Airlines.....	.86	.08	General Time Instruments.....	.89	.22
American Steel Foundries.....	1.06	d .09	Houdaille-Hershey "B".....	.83	.38
Atlantic Refining.....	1.12	.15	Libbey-Owens-Ford.....	1.15	.68
Babcock & Wilcox.....	1.23	d .76	Link-Belt.....	.54	.22
Bethlehem Steel.....	3.02	.17	Motor Products.....	1.02	.17
Clark Equipment.....	2.16	.89	New York Airbrake.....	2.09	.41
Colorado Fuel & Iron.....	1.00	.29	Poor & Co. "B".....	.62	.19
Container Corp.....	.65	.03	Sharon Steel.....	.60	d .17
Crown Cork & Seal.....	.53	.13	Tide Water Assoc. Oil.....	.50	.11
Dresser Manufacturing.....	1.17	d .17	Yale & Towne Mfg.....	.44	.01
Driver-Harris.....	1.41	.20	Union Carbide.....	1.13	.58
Freeport Sulphur.....	1.08	.40			

### Truck Sales

While some concerns—White and Studebaker, for example—have obtained important truck business from foreign governments, the export situation is rather uncertain for the industry as a whole due to the sharp reduction in normal commercial buying from abroad. Despite this, the truck builders are looking forward to a banner year with current estimates of factory sales for 1940 ranging around 807,000 units against an actual total of 757,006 last year. Some 220,000 trucks were sold last quarter, a gain of approximately 7½% over the corresponding period of 1939. Some gains have been realized of late in South American markets but these have been of rather minor importance since the competition formerly offered by the present belligerents was not particularly great and some difficulties are being encountered in the form of quotas, exchange restrictions, etc. Among the individual companies, results are likely to vary considerably depending on which come in for the most foreign government business from here on.

### Sugar Refiners

While the principal domestic cane sugar refiners, such as American, National and others, do not issue interim earnings reports, indications are that they enjoyed a somewhat better first quarter profitwise than

last year, chief evidence being the more stable relationship that existed between raw and refined prices. The outlook from here on is clouded somewhat by recent price-cutting on the part of western beet producers which, however, has not spread to the eastern seaboard. Profit margins in the latter area are generally favorable and will probably remain so barring any sharp rise in raw sugar prices. Export prospects, greatly over-rated at the outset of the European war, are nevertheless not to be counted out and England especially is regarded as a possible purchaser in quantity.

### Ahead of the Market

Though the market as a whole, as measured by the averages, has not been putting on a very inspiring performance of late, a number of individual issues have been prominent on the upside. Among them are International Paper, expected to profit by any pulp shortage that may develop as a result of the Scandinavian situation; Bayuk Cigar, whose "Philly" brand continues to show increasing popularity with beneficial effect on the company's earnings; Great Northern, whose dividend prospects have improved and whose second half operations are expected to better last year's; Aviation Corp., about the only remaining air issue with an important stake in both aircraft manufacturing (Stinson planes, Lycoming Motors, Vultee aircraft) and

air transport (Pan American and American Airlines); New York Shipbuilding and Bath Iron Works, both cashing in heavily on the naval building program; American Machine and Foundry which, in addition to its regular line of business (cigar and cigarette machinery), has sizable contracts with Sperry Corp. and a new line of bowling alley equipment, a field that has proven so profitable to Brunswick-Balke-Collender.

### Venezuelan Oil

In this war anything can happen and the wildest predictions frequently turn out to have been completely justified. Not wild at all is the idea that war may spread to the Mediterranean and Near East; a German Balkan thrust and/or Italy's entrance into the conflict would turn the trick, a likely upshot being severance of Britain's lifeline in the Mediterranean and the cutting off of Allied oil supplies from Iran and Iraq. Reports on the extent to which England and France have drawn their petroleum from these sources vary, but their takings have undoubtedly been fairly substantial. Should Near East oil thus become unavailable (shipping it around Good Hope would be rather costly), the embattled European democracies would have to turn to the western hemisphere — probably Venezuela which is 900 miles nearer Europe than the United States and where it would probably be easier to settle balances. Only domestic oil companies that would stand to gain would be those with a stake in Venezuelan production: Standard of New Jersey, Socony Vacuum, Texas Corp., Gulf, Consolidated, Creole, Maracaibo and Pantepec. Conversely, those with interests in the Near East—Standard of New Jersey, Standard of California, Texas and Socony—face offsetting hazards.

### Munitions Business

This country has nothing in the nature of an armament industry as such nor any plants corresponding with Britain's Vickers, France's Schneider-Creusot, or Germany's Krupp and Skoda. Of course there are the aircraft builders, a couple of steel concerns such as Midvale and Crucible that are capable of turning out heavy armor or shells, and some scattered small arms makers like

Remington and Colt—but the collection could scarcely be considered an armament industry. In time of national emergency, however, this role would probably be assumed by the rail equipment industry which played the part in the last war. For the most part, concerns in this group have had little munitions business as yet, apart from a few U. S. Government educational orders, but at least one seems to be on its way toward fairly important volume in this line. The company is American Car & Foundry which is understood to have recently landed a major munitions order from an unnamed foreign power. The exact size has not been revealed, the company being understandably reticent about the matter, but it is thought that as much as \$10,000,000 may be involved. Which means that ACF began its new fiscal year on May 1 with a substantial backlog including, in addition to the above, perhaps \$3,000,000 of freight cars and the greater part of a \$6,000,000 tank order placed some months ago by our own Government.

### Aircraft Buying

According to present plans, the Allies are expected to buy about 8,000 planes in this country in two lots of approximately 4,700 and 3,300. The first lot, to be delivered within the next 18 months, has now been about two-thirds contracted for, the plane business going to Douglas (with sub-contracts for Boeing and Consolidated), Curtiss (sub-contractors as yet unrevealed) and Bell. Other concerns understood to be slated to share in the second lot are Lockheed (which will also farm out a part of its business, probably to Vultee and Vega) Martin and Grumman. All engine business on both lots will go to United, Curtiss-Wright and General Motors, and the extent to which the Allies are subsidizing plant expansions by these concerns suggests that the Anglo-French purchasing mission is looking ahead to the time when the 8,000 ships now planned for have been delivered and even more will be needed. Incidentally, the reported efficacy of the German air force in Norway has further emphasized the importance of aircraft in modern warfare. Other news and rumors to the effect that the Nazis are developing long range pursuit craft, a

prerequisite of extensive bombing operations against England, also stresses the need for building up Allied air strength for defensive or retaliatory purposes.

### Street Topics

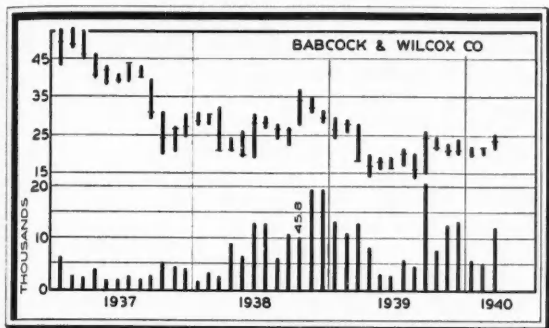
North American Co., it now appears from recent remarks of the management at the annual stockholders meeting, is about to follow United Corp. in the direction of becoming a general investment trust rather than purely a utility holding company. \* \* \* First 32 Class I carriers to report for March showed a gain in net operating income of 4.2% over the like month of 1939. \* \* \* Market interest in rail shares has picked up somewhat of late, long pull buying being noted in New York Central, Delaware & Hudson and several others. \* \* \* U. S. Steel's decision to retire \$24,500,000 of its outstanding indebtedness places the company among the growing list of concerns finding it expedient to utilize a part of cash reserve to scale down obligations. \* \* \* Though the hunt for income is unrelenting, some brokers report a trend away from highest grade, low-yielding money bonds and toward risk bearing issues, including high grade preferreds and even high grade equity issues.

### Exports Holding

Figures recently released by the Commerce Department place the total of exports in March at \$344,000,000, up about 2% from February. This was a considerably smaller percentage increase than normal at this time of year, but certainly cannot be accepted as evidence that foreign demand for our goods is drying up since February exports were far above year earlier levels and the quarter as a whole was the biggest first quarter in terms of exports since 1930. Moreover, the balance of exports over imports last quarter was the largest for the period since 1921. The March gain in value of exports over a year ago was about 30% of which approximately two-thirds are attributable to increased physical volume and the remainder to higher prices. Among specific commodities, the most important items continued to be iron and steel, machinery, trucks, lubricants, chemicals and aircraft. Most conspicuous among items showing a decline was raw cotton.

# 6 Stocks Favored in New Market Phase

## BABCOCK & WILCOX CO.



**BUSINESS:** Babcock & Wilcox Co. manufactures a line of steam boilers for marine and stationary service, stokers, economizers, superheaters, fuel pulverizers, water tubes, complete power plants as well as heavy machinery, large forms and metal parts. The company's steam boilers are regarded as one of the accepted standards of design by the trade. Approximately one-half of the company's normal sales are for marine purposes and the other half is mostly industrial and miscellaneous demand. With the ability to supply both naval and industrial needs, the company is in a peculiar position to benefit either from increased armament programs or from rising rates of industrial activity.

**FINANCIAL POSITION:** The company has no funded debt although at the close of 1939 there remained \$500,000 of bank loans out of \$2,000,000 reported at the close of 1937. As of the 1939 year end there were 671,970 shares of no par value common stock outstanding and 9,030 shares held in the treasury. According to the last year's balance sheet, current assets were \$16,542,968 or better than three times greater than current liabilities. Cash items of \$2,265,325 were substantially unchanged from those of a year previous although inventories carried at \$6,697,657 were about \$1,200,000 larger than at the close of the previous year. No dividends were paid last year but a \$0.20 a share dividend has been paid this year, the first distribution since April, 1938.

**OUTLOOK:** During 1939 the company expended \$258,000 for plant equipment and other facilities and authorized additional improvements to cost \$168,000 this year. Unfilled orders carried over into 1940 were \$23,248,345, more than fifty per cent greater than at the beginning of 1939, although since that time new business has been accruing at a somewhat lesser rate. Meters for steam and liquid flow, as well as distilling apparatus used by the chemical, alcohol and petroleum industry, should also be further stimulated by any increased industrial activities.

**MARKET ACTION:**

	Babcock & Wilcox	Market Average	B. & W. moves in rel. to avge.
'37 high to '38 low.....	63% decline	64% decline	01% narrower
'38 low to '38 high.....	63% advance	76% advance	17% narrower
'38 high to '39 low.....	56% decline	34% decline	65% wider
'39 low to '39 high.....	117% advance	44% advance	166% wider

Average volatility on four moves 53% greater than M. W. S. index of 309 common stocks.

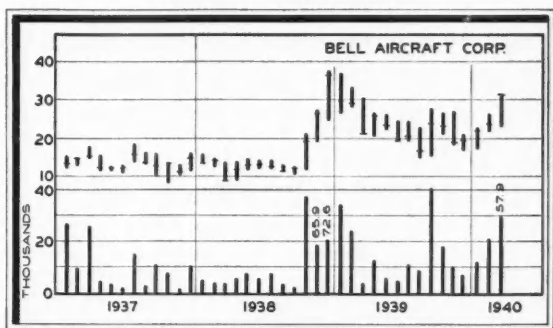
**COMMENT:** Recent price—24. Although incoming business since the first of the year has been small the company is in a strong position to benefit from increased armament expenditures.

### Long-Term Record

Year	Total Income (millions)	Net Income (millions)	Net Per Share A	Dividends	Price Range
1930.....	\$2.675	\$2.068	\$3.04	\$7.00	141-100
1931.....	.675	.223	0.33	7.00	110-36
1932.....	d1.009	d1.687	d2.46	3.00	45-30
1933.....	d1.105	d1.547	d2.27	1.25	59-25
1934.....	.288	d1.293	d1.93	0.85	51-18 1/2
1935.....	1.435	.593	0.77	0.40	77-28
1936.....	1.793	1.212	1.80	2.85	140 1/2-70
1937.....	2.576	1.085	2.69	5.00	156-60
1938.....	d2.477	d3.089	d4.60	0.25	31-19
1939.....	NF	1.169	1.74	.....	29 1/2-13 1/2

4—Deficit. Note—Stock split 3 for 1 in 1938. (A)—Adjusted to present capitalization. NF—Not available.

## BELL AIRCRAFT CORP.



**BUSINESS:** Bell Aircraft Corp. is a comparative newcomer to the airplane manufacturing group. It was formed in July, 1935, and took over a part of the Buffalo, N. Y., plants of the Consolidated Aircraft Co. Bell specializes in the design and development of aircraft on a contract or sub-contract basis and manufactures planes and parts, mainly for military purposes. Engines, propellers, instruments and certain other parts are purchased outside. While the company's earlier business was mostly as a sub-contractor, receipt of a sizable bomber order from the U. S. War Department late in 1937 gave the company its start as a producer of fast military aircraft. Much work has been done with the Allison, liquid cooled motor to develop a pusher type of plane which affords both high speed as well as unlimited forward areas for machine gun operations. The company is as yet relatively small, but its development has been at a conservative pace with the result that it is fast assuming an important position in the aviation industry.

**FINANCIAL POSITION:** The company's sole capital obligation is 250,000 shares of \$1 par value common stock. Although there is no additional stock authorized it is possible that the need for working capital to finance the exceptionally heavy block of unfilled orders now on hand will make some additional financing necessary. The company has followed the practice of reporting as net sales only the value of materials actually delivered and as a result, the reports are not fully indicative of the actual business of the company. Last year, deliveries of \$450,438 resulted in a profit of \$0.03 a share of common stock, although at the close of the year unfilled orders amounted to nearly \$8,000,000 as compared with about \$3,500,000 at the beginning of 1939. At the close of 1939, total current assets of \$1,491,208 were better than 7 times greater than total current liabilities. Cash items of \$213,069 compared favorably with the bank loans of \$100,000.

**OUTLOOK:** The Allison powered planes as well as the already established "Aircuda" plane give promise of continued good business for the company. These prospects may be further enhanced by the success of additional models now in development. A newly developed machine gun adapter has been adopted by the U. S. Navy and Army as standard.

**MARKET ACTION:**

	Bell Aircraft	Market Average	Bell's moves in rel. to avge.
'37 high to '38 low.....	52% decline	64% decline	12% narrower
'38 low to '38 high.....	319% advance	76% advance	319% wider
'38 high to '39 low.....	59% decline	34% decline	44% wider
'39 low to '39 high.....	143% advance	44% advance	223% wider

Average volatility on four moves 143% greater than M. W. S. index of 309 common stocks.

**COMMENT:** Recent price—31. Enlarged facilities will permit the company to accept much additional work offered as the result of the success of the several new products.

### Long-Term Record

Year	Net Sales (thousands)	Net Income (thousands)	Net Per Share	Unfilled Orders (thousands)	Price Range
1936.....	\$336	\$12	\$0.07	2,000	NF
1937.....	1,708	43	0.25	1,200	18 1/2-8
1938.....	1,219	65	0.33	3,675	37 1/2-8 1/2
1939.....	450	9	0.04	8,000	36 1/2-15

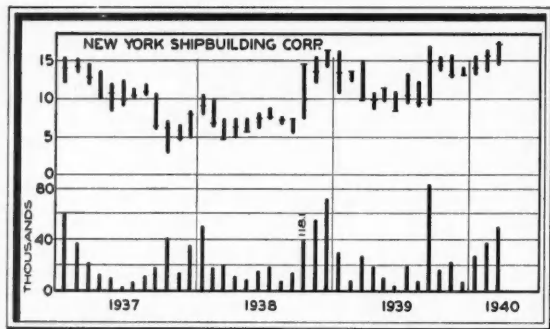
NF—Not available. Note—Net sales represent materials delivered only.

Thumbnail Stock Appraisal

Thumbnail Stock Appraisal

# 6 Stocks Favored in

## NEW YORK SHIPBUILDING CORP.



**BUSINESS:** New York Shipbuilding Corp. is now primarily interested in the construction and repair of all manner of larger ships. The plant at Camden, N. J., on the Delaware River is one of the largest in the country and while the company's facilities are now mostly devoted to the construction of cruisers and lighter naval craft for the U. S. Navy, some of the largest merchantmen afloat have been built in the yards. In 1925 the company was the nucleus around which the American Brown Boveri Co. was formed. That company had a diversified interest which included magnetos for aviation use, electrical conduit plants and other related products as well as shipbuilding. The non-shipbuilding interests have been gradually dispersed.

**FINANCIAL POSITION:** The capital structure is somewhat complicated but is not considered to be burdensome. A funded debt of \$2,619,400 is followed by 17,850 shares of 7 per cent preferred, 325,000 shares of participating stock and 175,000 founders shares. The participating stock is entitled to 65 per cent of all net earnings after preferred dividend requirements and the founders shares receive the remaining 35 per cent. As long as a capital deficit exists no preferred dividends can be paid. Last year's operations eliminated the previous deficit of \$808,000 and brought earned surplus up to \$120,000, but, as yet, preferred accruals of \$22.75 a share still remain. The company's financial position improved substantially during 1939. Current assets rose nearly 60 per cent to \$7,120,000 and the current asset ratio was nearly 3 to 1.

**OUTLOOK:** In February the company was the low bidder on two cruisers for the U. S. Navy which will, when awarded, bring the company's backlog of unfilled orders up to approximately \$118,000,000, and would assure the yards capacity operations for the next three years. Without the addition of the cruiser business the company has about \$84,000,000 of Navy business to complete. The company's gross billings of \$25,717,850 in 1939 should be exceeded by a substantial margin this year.

**MARKET ACTION:**

	N. Y. Shipbuilding Corp.	Market Average	N. Y. Ship action in rel. to avge.
'37 high to '38 low.....	69% decline	64% decline	5% wider
'38 low to '38 high.....	244% advance	76% advance	221% wider
'38 high to '39 low.....	47% decline	34% decline	38% wider
'39 low to '39 high.....	97% advance	44% advance	120% wider

Average volatility on four moves 23% greater on declines but 170% greater on advances than M. W. S. index of 309 common stocks.

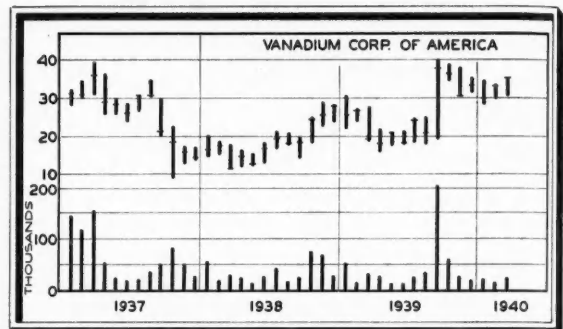
**COMMENT:** Recent price—25. The shares are currently priced close to a new high level for the past 10 years.

### Long-Term Record

Year	Gross Billings (millions)	Net Income (millions)	Net Per Share x	Dividends x	Price Range x
1930.....	NF	.002	.....	.....	21 3/4 - 6 1/4
1931.....	NF	1.305	\$1.84	.....	15 3/4 - 2 1/2
1932.....	NF	1.328	2.23	.....	6 1/4 - 1 1/2
1933.....	NF	d .094	.....	\$0.30	22 1/2 - 1 3/4
1934.....	NF	d .258	.....	.40	22 1/2 - 9 1/2
1935.....	NF	d 1.415	.....	.10	16 1/2 - 6 1/2
1936.....	14.077	.398	0.55	.....	15 1/2 - 9 1/2
1937.....	13.017	d 1.372	.....	.....	15 1/2 - 3
1938.....	11.068	.533	0.82	.....	16 1/2 - 4 3/4
1939.....	25.718	.928	1.61	.....	17 - 8 1/2

x—Participating shares. d—Deficit.

## VANADIUM CORP. OF AMERICA



**BUSINESS:** Vanadium Corp. controls the Minas Ragras mines of Peru, believed to be the richest deposit of vanadium ore in the world. A less rich, although extensive, vanadium property is owned in Colorado, thus assuring an uninterrupted domestic supply of the metal Titanium and silicon mines in this country and Canada supply the need for these metals and while chromium still is purchased in the open market the company has adequate reserves of chromium ore in South Africa and Canada. All of these metals find their principal use as an alloy for steel although there is a growing demand for titanium from the manufacturers of chemicals and pigments. The Peruvian ores are shipped to Bridgeville, Pa., where they are reduced and converted mostly into ferro-vanadium, an alloy imparting unusual wearing qualities to steel.

**FINANCIAL POSITION:** Vanadium Corp. just called \$2,316,000 of debentures and \$600,000 of notes, replacing them with a \$2,500,000 serial bank loan maturing in 1945 at an average interest rate of 2.8 per cent yearly. The former bonds carried a 5 per cent coupon, while the notes bore a 3 1/2 per cent interest rate. The only other capital obligation now is 377,140 shares of no par common stock. The bonds and notes just retired were convertible, so that the eventual equity position of the common stock has been improved by the latest financing. The 1939 balance sheet showed a current asset ratio of nearly 5 to 1, with cash alone being equal to about 66 per cent of total current liabilities of \$2,930,000. Common dividends were resumed last year after the lapse of a full year with the distribution of \$1 a share. The last previous payment was a similar amount in 1937.

**OUTLOOK:** The company is dependent mainly upon heavy industry, particularly steel, for its business. However, the company stated that it would probably do as well in the first quarter of 1940 as it did in the last quarter of 1939, in which it is estimated that earnings of \$1.25 a share of common stock was experienced. During last year, \$573,358 was appropriated for capital expenditures this year, the results of which are expected to be reflected in the last half's earnings.

**MARKET ACTION:**

	Vanadium Corp. of Amer.	Market Average	Vanadium's move in rel. to avge.
'37 high to '38 low.....	70% decline	64% decline	9% wider
'38 low to '38 high.....	151% advance	76% advance	98% wider
'38 high to '39 low.....	44% decline	34% decline	29% wider
'39 low to '39 high.....	150% advance	44% advance	241% wider

Average volatility on four moves 19% greater on declines but 170% greater on advances than M. W. S. index of 309 common stocks.

**COMMENT:** Recent price—38. Any increase in armament expenditures should improve demand for the company's essential steel alloys.

### Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1930.....	NF	\$1.117	\$2.95	\$3.00	143 1/4 - 44 1/4
1931.....	NF	d 1.097	d 2.99	0.75	76 1/4 - 11
1932.....	\$1.323	d 1.652	d 4.51	.....	23 1/4 - 5 1/4
1933.....	2.684	d .906	d 2.40	.....	36 1/4 - 7 1/4
1934.....	3.158	d .861	d 2.69	.....	31 1/4 - 14
1935.....	3.923	d .426	d 1.13	.....	21 1/2 - 11 1/4
1936.....	5.353	.152	0.40	.....	30 1/2 - 16 1/4
1937.....	6.418	.837	2.22	1.00	39 1/2 - 9 1/4
1938.....	3.967	.231	0.61	.....	28 1/2 - 11 1/4
1939.....	8.762	1.224	3.25	1.00	40 - 16

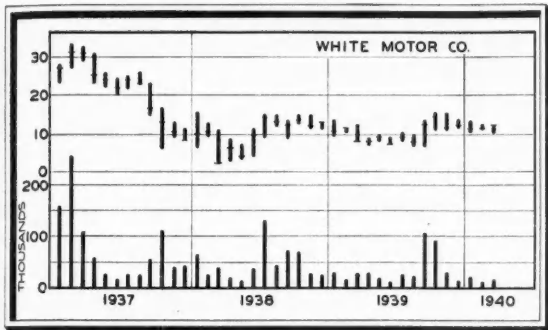
NF—Not available. d—Deficit.

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# New Market Phase (cont'd)

## WHITE MOTOR CO.



**BUSINESS:** White Motor Co.'s most important product is its line of trucks ranging in carrying capacity from 1 ton to 10 tons. The trucks are best known under the trade names of "White" and "Indiana," which includes streamlined, cab-over-motor as well as the more conventional models. The company also manufactures motor busses and coaches for interurban and local service with a passenger capacity from 15 to 40 persons. A new, light weight bus, available in two models, and selling in the lower price brackets is finding increasingly large acceptance by transit companies for use in small load runs and for off-hour traffic. Distribution is obtained through widespread factory branches, which account for a majority of sales and a large dealer organization.

**FINANCIAL POSITION:** The company's only capital obligation is 625,000 shares of \$1 par value capital stock. During 1939, notes payable—which amounted to \$500,000 at the beginning of the year—were paid off. Profitable operations during the year reduced the deficit from operations to \$2,305,145 from \$2,464,010 at the close of 1938. Current assets of \$15,775,224 were better than 4½ times current liabilities. Inventories, however, rose \$2,500,000 during the year to a total of \$11,356,847. Cash of \$1,308,928 was slightly below a year previous, although apparently adequate for current needs. Net sales in 1939 rose 21 per cent above those of 1938, but were insufficient to prevent an operating loss of \$61,962 for the year, as compared with a loss of \$2,189,256 a year earlier. Other income, amounting to \$345,750, however, brought total income for the year up to \$283,788, as compared with a loss of \$1,825,275 in 1938.

**OUTLOOK:** The company's new "White Horse," door-to-door delivery truck is meeting with increasing success and has been the means of considerably expanding dealer outlets. The bus division is also experiencing good demand and the 7,604 busses and trucks sold during 1939 are expected to be exceeded by a fair margin this year. Export demand also continues to show betterment, especially for units that are adaptable to military needs. The current outlook indicates a further improvement over last year's fair results.

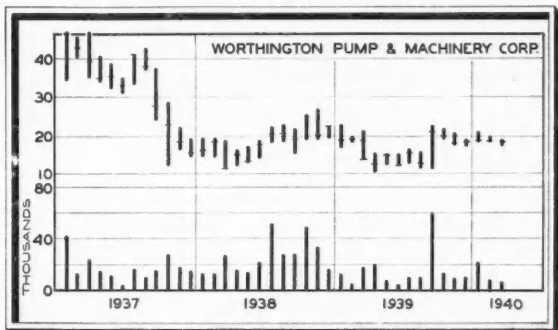
MARKET ACTION:	White Motor Co.	Market Average	White's moves in rel. to avge.
'37 high to '38 low.....	81% decline	64% decline	26% wider
'38 low to '38 high.....	148% advance	76% advance	94% wider
'38 high to '39 low.....	54% decline	34% decline	53% wider
'39 low to '39 high.....	125% advance	44% advance	186% wider
Average volatility on four moves 91% greater than M. W. S. index of 309 common stocks.			

**COMMENT:** Recent price—13. The addition of the new line of light truck is improving operating ratio and profit margins.

### Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1930.....	\$26.53	d\$5.474	d\$5.59	\$2.00	43 - 21½
1931.....	22.52	d\$3.235	d4.98	0.50	26¼ - 7½
1932.....	17.12	d\$3.619	d5.79	5.00	27¼ - 6½
1933.....	13.61	d\$3.413	d5.46	.....	26½ - 14
1934.....	30.54	d1.401	d2.24	0.31	28½ - 15
1935.....	19.91	d2.912	d4.66	.....	19½ - 6½
1936.....	28.77	-.682	1.09	.....	28½ - 18½
1937.....	30.68	-.066	0.11	.....	33½ - 6
1938.....	19.39	d1.826	d2.92	.....	15¼ - 6½
1939.....	23.51	.107	0.17	.....	15¼ - 7
d—Deficit.					

## WORTHINGTON PUMP & MACHINERY CORP.



**BUSINESS:** Worthington Pump & Machinery Corp. is one of the country's leading manufacturers of air and gas compressors, vacuum pumps, refrigerating and ice making pumps and compressors, air conditioning equipment, rock-drilling tools, Diesel engines, gas engines, speed change gears as well as pumps and meters for liquids and steam. Most of the company's products are suitable only to heavy industry and are custom-made. As a consequence, much of the business is done on specification for the public utility, railroad and petroleum industries. However, several of the products are suited to the construction, mining and roadbuilding industries, with the result that some degree of diversification is being achieved. The pumps and steam equipment are in good demand by the U. S. Navy as well as the shipbuilding business.

**FINANCIAL POSITION:** Despite the fact that there is no funded debt, the capitalization is complicated. There are four classes of preferred stock as well as common stock outstanding. The preferred issues consist of 65,038 shares each of 4½ per cent Convertible, Prior Preferred and 4½ per cent Prior Preferred, 6,193 shares of 7 per cent class "A" and 8,789 shares of 6 per cent class "B" stock. There are 250,365 shares of common stock of no par value. Last year's operating results marked the fourth consecutive profit after five years of deficit operations. At the close of the year the company had improved its financial position to a point where current assets of \$14,268,267 were better than eight times total current liabilities, which included \$3,250,000 of bank loans. Cash items rose about \$130,000 to \$965,495 from the year before, and while this amount is comparatively small in relation to total current assets, it is apparently adequate for the company's needs.

**OUTLOOK:** Last year's operations probably failed to reflect but a small part of the business available from increased activities in both commercial and naval shipbuilding. The new U. S. Naval expansion program, calling for expenditures of upward of \$650,000,000 will, if passed, further improve the prospects of Worthington Pump.

MARKET ACTION:	Worthington P. & M. Corp.	Market Average	Worthington's moves in rel. to avge.
'37 high to '38 low.....	76% decline	64% decline	19% wider
'38 low to '38 high.....	142% advance	76% advance	86% wider
'38 high to '39 low.....	61% decline	34% decline	79% wider
'39 low to '39 high.....	120% advance	44% advance	172% wider
Average volatility on four moves 89% greater than M. W. S. index of 309 common stocks.			

**COMMENT:** Recent price—19. The company should show better results from increased shipbuilding during 1940.

### Long-Term Record

Year	Net Billings (millions)	Net Income (millions)	Net Per Share x	Price Range
1930.....	NF	\$2.056	\$5.40	169 - 47
1931.....	NF	d .660	d5.05	106½ - 15¼
1932.....	NF	d1.668	d8.93	24 - 5
1933.....	NF	d1.185	d7.07	39½ - 8
1934.....	\$7.766	d1.083	d6.68	31½ - 13½
1935.....	10.766	d .095	d2.88	25¼ - 11¼
1936.....	15.963	.753	0.38	36¼ - 23½
1937.....	20.707	1.622	3.67	47 - 12
1938.....	NF	.030	d2.36	27¼ - 11¼
1939.....	NF	.817	0.54	23½ - 10½
NF—Not available. d—Deficit. x—Adjusted to recapitalization of 1937				

Thumbnail Stock Appraisal

Thumbnail Stock Appraisal

# 10 Points Profit in Armour Ill. pf. ... in 4 Weeks!

**A**RMOUR of Ill. pf. was recommended March 28th at 52 $\frac{3}{4}$  in our Speculative Securities for Price Appreciation. It now shows over 10 points profit. • In all, 36 $\frac{1}{2}$  points profit with only  $\frac{1}{4}$  point loss is available on FORECAST advices in an open position... an indication of the accuracy of our judgment in today's selective markets.

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For Market Appreciation

Two common stocks—average price under 18. Offer maximum profits with minimum outlay. Undervalued, low-priced issues selected after careful research.

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For Short Term Profit

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Two common stocks—average price under 40. Pay attractive yields with higher earnings in prospects. Excellent mediums for price appreciation plus income.

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### INVESTMENT SECURITIES

—For Income and Appreciation

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—For Price Appreciation

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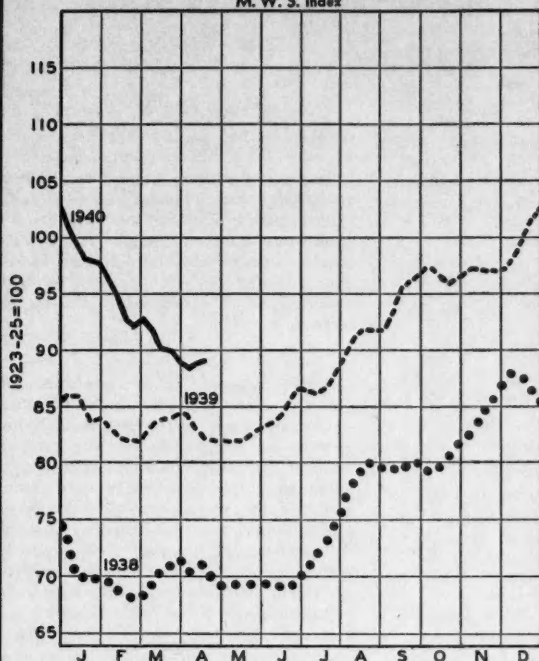
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## BUSINESS ACTIVITY

M. W. S. Index



## CONCLUSIONS

**INDUSTRY**—Worst of recession over.

**TRADE**—Department store sales resume lead over last year.

**COMMODITIES**—Prices react moderately lower, under pressure of profit taking.

**MONEY AND CREDIT**—New York banks lighten long term government holdings. Commercial borrowings decline further.

# The Business Analyst

Much less than normal seasonal contraction in Soft Coal production, combined with somewhat better than normal seasonal gains in Electric Power output, Cotton Cloth production, Automobile assemblies and Lumber shipments since our last issue have a little more than counterbalanced larger than seasonal recessions in Check Payments and Steel Ingot production, causing a net fractional gain in the nation's per capita volume of **Business Activity** for the second consecutive week. From now on, seasonal influences alone should lead to moderate improvement in the adjusted Business Index, even in the absence of other recent constructive developments.

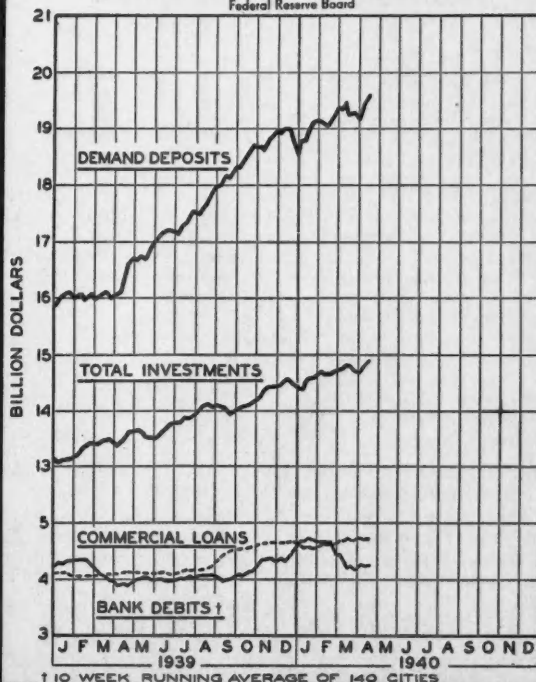
\* \* \*

A more optimistic attitude toward the nearby business outlook seems warranted by firmer **raw material prices** consequent upon invasion of Scandinavia, and the March drop in the Federal Reserve Board's revised index of **industrial production** to a level two points below the Magazine of Wall Street's index of **business activity** computed on a comparable basis, which shows that consumption is now running ahead of production. With prospects that the war may spread to other areas as time passes, it seems probable that the present price upturn will prove to have been more than a mere

(Please turn to next page)

## BUSINESS CREDIT

Federal Reserve Board



# Business and Industry

## PRESENT POSITION AND OUTLOOK

	Date	Latest Month	Previous Month	Last Year
<b>INDUSTRIAL PRODUCTION (a)</b>	Mar.	103	109	98
<b>INDEX OF PRODUCTION AND TRADE (b)</b>	Mar.	88	89	83
Production	Mar.	87	89	82
Durable Goods	Mar.	76	81	67
Non-durable Goods	Mar.	94	94	90
Primary Distribution	Mar.	82	85	78
Distribution to Consumers	Mar.	93	92	90
Miscellaneous Services	Mar.	89	88	82
<b>WHOLESALE PRICES (h)</b>	Mar.	78.4	78.7	76.7
<b>INVENTORIES (n, j, c, b.)</b>				
Raw Materials	Feb.	95.7	97.0	104.8
Semi-Finished Goods	Feb.	87.7	84.6	117.0
Finished Goods	Feb.	109.7	109.9	101.0
<b>COST OF LIVING (d)</b>				
All Items	Mar.	85.5	85.8	84.9
Food	Mar.	78.8	79.8	78.0
Housing	Mar.	86.6	86.6	86.1
Clothing	Mar.	73.2	73.2	72.3
Fuel and Light	Mar.	85.8	86.0	85.8
Sundries	Mar.	96.9	96.9	96.7
Purchasing value of dollar	Mar.	117.0	116.6	117.8
<b>NATIONAL INCOME (cm)†</b>	Mar.	\$5,936	\$5,567	\$5,727
<b>CASH FARM INCOME†</b>				
Farm Marketing	Mar.	\$534	\$545	\$517
Including Gov't Payments	Mar.	601	643	612
Total, First 3 Months	1940	1,987		1,773
Prices Received by Farmers (ee)	Mar.	97	101	91
Prices Paid by Farmers (ee)	Mar.	122	122	120
Ratio: Prices Received to Prices Paid (ee)	Mar.	80	83	76
<b>FACTORY EMPLOYMENT (f)</b>				
Durable Goods	Feb.	97.4	97.4	83.3
Non-durable Goods	Feb.	106.7	105.3	103.5
<b>FACTORY PAYROLLS (f)</b>	Feb.	97.8	98.3	86.0
(not adjusted)				
<b>RETAIL TRADE</b>				
Department Store Sales (f)	Mar.	89.0	89.0	88.0
Chain Store Sales (g)	Mar.	115.0	114.0	109.8
Variety Store Sales (g)	Mar.	119.0	119.0	113.6
Rural Retail Sales (j)	Mar.	136.6	132.3	131.0
Retail Prices (s) as of	Apr. 1	92.8	92.6	89.1
<b>FOREIGN TRADE</b>				
Merchandise Exports†	Mar.	\$344.4	\$338.6	\$267.8
Cumulative year's total† to	Mar. 31	1,051.6		699.4
Merchandise Imports†	Feb.	199.8	241.9	158.1
Cumulative year's total† to	Feb. 29	441.7		336.3
<b>RAILROAD EARNINGS</b>				
Total Operating Revenues*	1st 2 mos.	658,973		582,683
Total Operating Expenditures*	1st 2 mos.	497,860		453,566
Taxes*	1st 2 mos.	61,216		56,676
Net Rwy. Operating Income*	1st 2 mos.	78,373		51,585
Operating Ratio %	1st 2 mos.	75.55		77.84
Rate of Return %	1st 2 mos.	2.78		1.83
<b>BUILDING Contract Awards (k)</b>	Mar.	\$272.2	\$200.6	\$300.7
<b>F. H. A. Mortgages</b>				
Selected for Appraisal†	Mar.	114.0	84.5	121.7
Accepted for Insurance†	Mar.	63.6	45.0	63.5
Premium Paying†	Mar.	46.2	51.6	50.4
<b>Building Permits (c)</b>				
214 Cities†	Mar.	89.0	69.4	97.4
New York City†	Mar.	21.6	21.1	21.3
Total, U. S.†	Mar.	110.6	90.5	118.7
<b>Engineering Contracts (En)†</b>	Mar.	179.8	270.9	285.6

(Continued from page 113)

speculative flare-up and, since hardening prices are usually predicated upon expansion in new orders, the conclusion seems inescapable that we are entering upon a second, and more or less prolonged, period of buying for export and domestic inventory building, despite the already high level of stocks carried by producers and middlemen. This inference is supported by recent private reports of a noticeable pick-up in new orders.

While the general business level is considerably below December's peak, it is still 9% above last year at this time, and a number of industries—notably the automotive, machine tools, chemicals, shipbuilding, electric equipment, aircraft, paper and privately financed construction—are either prospering or expanding. First quarter profits, judging from early reports, averaged more than 70% above last year. New capital raised through flotation of corporate securities during March was 35% above the like month of 1939. In consequence of the war, prices are rising for commodities such as wheat, corn, sugar, hides, paper and pulp—with a somewhat firmer tone in copper and lead; but no major general inflation is probable so long as millions of potential workers remain unemployed. At present, retail prices are 4.2% above last year, while wholesale prices are up 2.9%.

March exports which, according to preliminary estimates, gained only 30% over the like month of 1939 against much larger comparative increases for the two preceding months, are not convincing evidence of any permanent decline in our foreign trade; since orders for shipment abroad are known to have risen substantially in April, following invasion of Norway and Denmark, and should expand more as the conflict widens. The chief limitation upon our exports will be a shortage of bottoms, not lack of demand. March sales by independent retail stores were 23% ahead of February, and 6.5% above last year. Department store sales in the week ended April 13 were up 5%, against a four-weeks' decline of 3%. Store inventories in the New York area on April 1 were only 1.6% above last year.

Though storms and floods have cut down carloadings recently, the total is still some 12% above last year—thanks mainly to the 1939 coal strike. Present outlook is that a bill calling for more effective regulation of water and truck transportation will pass at the present session of Congress. General Motors announces that complete "dieselization" of railroad motive power is now practical.

Privately financed construction contracts during March in 37 states east of the Rockies were 2½% above the like month of 1939, but total building declined 9%, owing to a 26% drop in public awards. Gains in new homes under construction and in mortgages selected for appraisal set new F. H. A. records in the week ended April 13.

	Date	Latest Month	Previous Month	Last Year	PRESENT POSITION AND OUTLOOK
<b>STEEL</b>					
Ingot Production in tons*	Mar.	4,236	4,375	3,814	With domestic retail sales of automobiles during the first twenty days of April rising to 30% above the like period of 1939, compared with the March gain of only 20%, production has just staged a better than normal seasonal increase for the first week since February. Sweeping victory of the C. I. O. in recent plant elections removes the difficulties attendant upon dual unionism, and it is believed that new contracts can be negotiated without serious labor trouble.
Pig Iron Production in tons*	Mar.	3,270	3,311	2,682	
Shipments, U. S. Steel in tons*	Mar.	932	1,009	845	
<b>AUTOMOBILES</b>					
Production					Machine tool production, at 93.4% of capacity, reached a new all time peak in March. This year's output is expected to exceed \$200,000,000, of which 10% to 15% will be required for the second expansion program of airplane engine builders. Only about 35 of the country's 150 machine tool makers are equipped to handle the latter highly specialized business.
Factory Sales	Mar.	423,299	403,627	371,946	
Total 1st 3 Months	1940	1,259,027	.....	1,017,334	
Registrations					
Passenger Cars, U. S. (p)	Feb.	224,625	260,216	164,942	* * *
Trucks, U. S. (p)	Feb.	41,336	45,650	37,460	
<b>PAPER (Newsprint)</b>					
Production, U. S. & Canada* (tons)	Mar.	336.4	313.3	300.6	Machine tool production, at 93.4% of capacity, reached a new all time peak in March. This year's output is expected to exceed \$200,000,000, of which 10% to 15% will be required for the second expansion program of airplane engine builders. Only about 35 of the country's 150 machine tool makers are equipped to handle the latter highly specialized business.
Shipments, U. S. & Canada* (tons)	Mar.	322.2	291.3	286.7	
Mill Stocks, U. S. & Canada* (tons)	Mar.	228.6	214.4	226.0	
<b>LIQUOR (Whisky)</b>					
Production, Gals.*	Mar.	10,304	9,599	9,993	* * *
Withdrawn, Gals.*	Mar.	6,469	6,616	6,791	
Stocks, Gals.*	Mar. 31	473,278	470,518	475,150	
<b>GENERAL</b>					
Paperboard, new orders (st)	Feb.	367,897	398,125	338,030	March shoe production was nearly 20% below last year, compared with a 6.7% decrease for the entire first quarter. Preliminary schedules for April, however, indicate a decline of only 1%. Cigarette withdrawals during March were 8.6% below last year (owing to prospective abandonment of New York City's special tax), against a nine-months' increase of 4.3%.
Railway Equipment Orders (Ry)					
Locomotive	Mar.	40	18	68	
Freight Cars	Mar.	1,076	1,172	1,000	
Passenger Cars	Mar.	0	15	60	* * *
Cigarette Production†	Mar.	13,021	13,163	14,244	
Bituminous Coal Production* (tons)	Mar.	35,400	39,105	35,438	
Boot and Shoe Production prs.*	Mar.	36,500(pl)	35,573	42,375	
Portland Cement Shipments* (bbls.)	Mar.	7,715	4,905	8,467	* * *
Commercial Failures (c)	Mar.	1,197	1,042	1,322	

### WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago	PRESENT POSITION AND OUTLOOK
<b>M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100</b> .....	Apr. 20	89.3	88.7	81.6	<p>Despite the industrial recession, <b>electric power output</b>, figured on a seasonally adjusted basis, has just risen to within three points of its all time record high reached during the first week of January and now stands at 222% of the 1923-5 average—10% above last year at this time. Few other major industries can boast of such persistent secular growth. Viewed in its longer range perspective there can thus be little of real significance in the approaching political battle in the Northwest over distribution of power from the Bonneville and Grand Coulee Columbia River developments.</p> <p style="text-align: center;">* * *</p> <p>While orders for export are estimated to be running currently at 15% to 20% of total bookings, no important pick-up in the <b>steel operating rate</b> is looked for until inventories accumulated by domestic users and jobbers during the fourth quarter have been reduced to somewhat lower levels. This goal should be reached, however, within a comparatively short time; for consumption since February has been running considerably ahead of production.</p> <p style="text-align: center;">* * *</p> <p>First quarter earnings by the <b>oil industry</b> averaged 30% to 40% above the like period of 1939. Topheavy <b>gasoline</b> inventories should be reduced somewhat following the 10% cut by Texas in <b>crude</b> output for May.</p>
<b>ELECTRIC POWER OUTPUT</b> K.W.H.†.....	Apr. 20	2,422	2,418	2,199	
<b>TRANSPORTATION</b>					
Carloadings, total.....	Apr. 20	557,867	618,810	557,867	
Grain.....	Apr. 20	34,163	31,196	30,752	
Coal.....	Apr. 20	113,493	113,121	66,898	
Forest Products.....	Apr. 20	32,096	31,174	28,450	
Manufacturing & Miscellaneous.....	Apr. 20	266,447	264,051	247,900	
L. C. L. Mdse.....	Apr. 20	148,150	148,301	152,035	
<b>STEEL PRICES</b>					
Pig Iron \$ per ton (m).....	Apr. 23	22.61	22.61	20.61	
Scrap \$ per ton (m).....	Apr. 23	16.13	16.08	14.33	
Finished c per lb. (m).....	Apr. 23	2.211	2.261	2.286	
<b>STEEL OPERATIONS</b>					
% of Capacity week ended (m)....	Apr. 23	62.0	62.0	48.5	
<b>CAPITAL GOODS ACTIVITY (m) week ended</b> .....	Apr. 20	71.9	72.6	63.2	
<b>PETROLEUM</b>					
Average Daily Production bbls.*..	Apr. 20	3,550	3,550	3,527	
Crude Runs to Stills Avge. bbls.*..	Apr. 20	3,535	3,570	3,310	
Total Gasoline Stocks bbls.*.....	Apr. 20	102,817	101,837	87,394	
Fuel Oil Stocks, bbls.*.....	Apr. 20	74,138	74,030	79,094	
Crude—Mid-Cont. \$ per bbl.....	Apr. 26	1.02	1.02	1.02	
Crude—Pennsylvania \$ per bbl.....	Apr. 26	2.23	2.23	1.48	
Gasoline—Refinery \$ per gal.....	Apr. 26	.06¼	.06¼	.06	

†—Millions. \*—Thousands. (a)—Federal Reserve 1923-25-100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreets. (cn)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923-100. (e)—Dept. of Agric., 1924-29-100. (ee)—Dept. of Agric., 1909-14-100. (En)—Engineers News Record. (f)—1923-25-100. (g)—Chain Store Age 1929-31-100. (h)—U. S. B. L. S. 1926-100. (i)—Adjusted—1929-31-100. (k)—F. W. Dodge Corp. (m)—Iron Age. (n)—1926-100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1936-100. (p)—Polk estimates. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930-100. (st)—Short tons.



Date Latest Wk. or Mo. Previous Wk. or Mo. Year Ago

PRESENT POSITION AND OUTLOOK

**COPPER**

Price cents per lb.				
Domestic.....	Apr. 27	11¼	11¾	10¼
Export f. a. s. N. Y.....	Apr. 27	11.20	11¾	.....
Refined Prod., Domestic (tons)....	Mar.	86,295	82,761	66,718
Refined Del., Domestic (tons)....	Mar.	64,376	63,215	50,803
Refined Stocks, Domestic (tons)....	Mar. 31	159,792	145,393	320,812
Refined Prod., World (tons).....	July	158,236	173,205	139,483
Refined Del., World (tons).....	July	181,487	180,433	177,580
Refined Stocks, World (tons).....	July 31	490,419	513,670	523,196

**TIN**

Price cents per lb., N. Y.....	Apr. 27	47.50	47.50	48.65
Tin Plate, price \$ per box.....	Apr. 27	5.00	5.00	5.00
World Visible Supply† as of.....	Mar. 31	32,339	33,148	37,788
U. S. Deliveries†.....	Mar.	9,244	6,600	4,755
U. S. Visible Supply† as of.....	Mar. 31	17,970	15,619	10,786

**LEAD**

Price cents per lb., N. Y.....	Apr. 27	5.10	5.10	4.75
U. S. Production (tons).....	Mar.	48,400	43,317	40,799
U. S. Shipments (tons).....	Mar.	46,353	39,176	40,871
Stocks (tons) U. S., as of.....	Mar.	74,692	72,658	122,035

**ZINC**

Price cents per lb., St. Louis.....	Apr. 27	5.75	5.75	4.50
U. S. Production (tons).....	Mar.	57,620	54,532	45,084
U. S. Shipments (tons).....	Mar.	51,095	53,048	45,291
Stocks (tons) U. S., as of.....	Mar. 31	73,611	67,086	127,985

**SILK**

Price \$ per lb. Japan xx crack.....	Apr. 27	2.66	2.61	2.48½
Mill Dels. U. S. (bales).....	Mar.	21,685	22,485	37,863
Visible Stocks N. Y. (bales), as of..	Mar. 31	45,887	50,306	23,116

**RAYON (Yarn)**

Price cents per lb.....	Apr. 27	53	53	51
Consumption (a).....	Mar.	29.5	29.5	26.6
Stocks as of (a).....	Mar. 31	10.1	8.3	41.4

**WOOL**

Price cents per lb., tops, N. Y.....	Apr. 27	100½	101½	84½
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**HIDES**

Price cents per lb. No. 1 Packer...	Apr. 27	13¾	13½	9½
Visible Stocks (000's) as of.....	Mar. 1	12,845	13,044	13,453
No. of Mos. Supply as of.....	Mar. 1	6.9	7.1	7.1

**RUBBER**

Price cents per lb.....	Apr. 27	19.50	19.87	15.82
Imports, U. S.†.....	Mar.	59,258	43,088	38,989
Consumption, U. S.†.....	Mar.	50,192	49,832	50,165
Stocks U. S. as of.....	Mar. 31	149,678	148,776	205,936
Tire Production (000's).....	Mar.	5,031	4,911	5,091
Tire Shipments (000's).....	Mar.	4,352	4,118	4,565
Tire Inventory (000's) as of.....	Mar. 31	10,836	10,157	9,963

**COCOA**

Price cents per lb. May.....	Apr. 27	5.99	5.90	.415
Arrivals (thousand bags).....	Mar.	207.6	438.0	675.3
Warehouse Stocks (thousand bags)..	Apr. 26	1,061.2	1,056.6	1,328.8

**COFFEE**

Price cents per lb. (c).....	Apr. 27	7¼	7¼	7½
Imports, season to (bags, 000's)....	Apr. 1	10,620	9,132	10,420
U. S. Visible Supply (bags, 000's)....	Apr. 1	1,507	1,543	1,446

**SUGAR**

Price cents per lb.				
Raw.....	Apr. 27	2.84	2.90	2.89
Refined (Immediate Shipment)....	Apr. 27	4.40	4.50	4.50
U. S. Deliveries (000's)*.....	3 mos.	1,256.6	.....	1,373.2
U. S. Stocks (000's)* as of (n).....	Mar. 31	1,000.4	.....	637.9

**Copper.** Use of copper in manufacture during March totaled 68,825 tons, an increase of 2,176 tons over February shipments. March deliveries of fabricated products were 4,449 tons higher than takings of refined metal from producers, which totaled 64,376 tons. Fabricators' supplies of copper in excess of working stocks and coverage for customers' orders declined 11,256 tons in March and totaled less than three weeks' supply. Sales of refined last week averaged better than 2,500 tons daily. Customs smelters quote 11¼ cents, while primary producers continue to hold to the 11½-cent figure.

**Tin.** Prices were firm throughout the past week, holding at about 47½ cents, or 3 cents a pound above recent lows. A fair amount of business was transacted. Latest reports place tin afloat to the United States at 13,227 tons.

**Lead.** Stocks of refined lead at the end of March totaled 74,692 tons, an increase of 2,034 tons for the month. The increase in stocks reflected increased production, which amounted to 48,400 tons, up 5,083 tons. Shipments in March totaled 46,353 tons, an increase of 7,177 tons. Statistical position, however, continues sound and consumption is steady.

**Zinc.** Although recent bookings by producers have been pretty slim, prices have held firm, unchanged at 5.75 cents. Galvanized production was reported at 46% of capacity.

**Silk.** Prices were firm to higher over the past week. Reports were circulated that Japan has established a median price for raw silk at 1,650 yen, or about \$3 a pound. The market is to be permitted to fluctuate 20% either way, indicating a range of \$2.40 and \$3.60. Domestic arrivals to April 27 totaled 16,861 bales.

**Wool.** Stocks of raw wool at the end of the first quarter totaled 96,149,000 pounds, as compared with 109,533,000 pounds at the end of December, and 94,506,000 pounds a year ago.

**Hides.** Market interest has been dull. Price changes have been small but slightly lower. An amendment has been offered in the Senate to the Commodity Exchange Act, providing for the inclusion of hides among commodity futures which will be under Government regulation.

**Rubber.** Tire sales in March showed a seasonal gain of 5.7% from the February level, but were 4.7% under shipments for March a year ago. Production was 2.5% higher than February and inventories of manufacturers rose 6.7% and were 8.8% higher than at the end of March, 1939.

**Cocoa.** Prices have risen and spot supplies are tight. Cocoa afloat from Africa to the United States is considerably under the level of a year ago, and no cocoa at all is currently afloat from Bahia to the United States.

**Sugar.** At the close of the past week the world contract was 1 to 3½ points higher, reflecting war developments, while the domestic prices were from 1 to 7 points lower. Aside from war news, the market is lacking in any impetus for higher prices.

†—Long tons. \*—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. (pl)—Preliminary. (n)—Raw and refined. (X)—No foreign statistics allowed to be sent from abroad because of war conditions.

# Money and Banking

	Date	Latest Week	Previous Week	Year Ago
<b>INTEREST RATES</b>				
Time Money (60-90 days).....	Apr. 27	1¼%	1¼%	1¼%
Prime Commercial Paper.....	Apr. 27	½-¾%	½-¾%	½-1%
Call Money.....	Apr. 27	1%	1%	1%
Re-discount Rate, N. Y.....	Apr. 27	1%	1%	1%
<b>CREDIT (millions of \$)</b>				
Bank Clearings (outside N. Y.)....	Apr. 20	2,649	2,426	2,305
Cumulative year's total to.....	Apr. 20	39,804	.....	36,545
Bank Clearings, N. Y.....	Apr. 20	3,401	3,282	3,204
Cumulative year's total to.....	Apr. 20	51,217	.....	54,600
<b>F. R. Member Banks</b>				
Loans and Investments.....	Apr. 17	23,589	23,466	21,808
Commercial, Agr., Ind. Loans....	Apr. 17	4,430	4,393	3,858
Brokers Loans.....	Apr. 17	619	630	690
Invest. in U. S. Gov't.....	Apr. 17	9,002	8,938	8,273
Invest. in Gov't Gtd. Securities...	Apr. 17	2,406	2,379	2,030
Other Securities.....	Apr. 17	3,528	3,518	3,381
Demand Deposits.....	Apr. 17	19,655	19,465	16,619
Time Deposits.....	Apr. 17	5,312	5,360	5,213
<b>New York City Member Banks</b>				
Total Loans and Invest.....	Apr. 24	9,159	9,165	8,059
Comm'l, Ind. and Agr. Loans....	Apr. 24	1,689	1,691	1,376
Brokers Loans.....	Apr. 24	480	479	547
Invest. U. S. Gov'ts.....	Apr. 24	3,604	3,619	3,009
Invest. in Gov't Gtd. Securities...	Apr. 24	1,278	1,258	1,044
Other Securities.....	Apr. 24	1,316	1,321	1,229
Demand Deposits.....	Apr. 24	9,121	9,106	7,428
Time Deposits.....	Apr. 24	666	664	624
<b>Federal Reserve Banks</b>				
Member Bank Reserve Balance...	Apr. 24	12,833	12,757	9,903
Money in Circulation.....	Apr. 24	7,520	7,536	6,860
Gold Stock.....	Apr. 24	18,708	18,631	15,714
Treasury Currency.....	Apr. 24	2,997	2,992	2,849
Treasury Cash.....	Apr. 24	2,305	2,313	2,693
Excess Reserves.....	Apr. 24	6,120	6,050	4,120
<b>NEW FINANCING (millions of \$)</b>				
Corporate.....	Mar.	134.9	256.2	99.7
New Capital.....	Mar.	29.1	45.4	53.0
Refunding.....	Mar.	105.8	210.8	46.7

Recent banking developments were featured by the latest statement of **New York City Member Banks** disclosing the shift from longer term Treasury bonds into short term Treasury notes and government guaranteed issues. Holdings of Treasury bonds in the latest week were off \$42,000,000, while holdings of Treasury notes rose \$29,000,000 and government guaranteed issues increased \$20,000,000. The shift is particularly significant, occurring as it did shortly after the sharp criticism directed at the Administration's "easy money" policy by the Federal Advisory Council. In the two preceding weeks New York banks had acquired a total of \$62,000,000 in long term Treasury obligations. The liquidation of such issues last week can hardly be ascribed to profit-taking in view of the fact that during the period under discussion Treasury bonds displayed more market weakness than strength.

Any fear over the duration of the present levels for high grade bonds which might be read into the above development would seem to be tempered by the fact other banks and institutional investors were heavy buyers of long term Treasury bonds during the same period in which such issues were being sold by the New York banks. The belief that huge excess reserves virtually guarantee an indefinite period of low interest rates and high prices for long term bonds of gilt edge character has many adherents. On the other side of the argument are those with a strong conviction that a prolonged war inevitably will raise interest rates and lower the prices of high grade bonds.

## THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1940 Indexes					1940 Indexes			
	High	Low	Apr. 20	Apr. 27		High	Low	Apr. 20	Apr. 27
309 COMBINED AVERAGE	67.1	61.4	64.7	64.7	(Nov. 14, 1936, Close—100)	68.30	63.97	66.21	66.09
					100 HIGH PRICED STOCKS...	58.80	53.75	56.42	56.98
5 Agricultural Implements.....	103.6	91.4	95.1	100.1	2 Mail Order.....	94.9	87.7	89.6	88.9
6 Amusements.....	28.8	24.4	24.4L	24.4	4 Meat Packing.....	70.0	54.0	70.0H	67.8
15 Automobile Accessories....	96.2	82.1	92.8	92.5	13 Metals, non-Ferrous.....	158.4	147.0	155.9	151.0
12 Automobiles.....	12.0	10.7	11.1	10.7x	3 Paper.....	19.2	13.0	19.2H	19.1
12 Aviation (1927 Cl.—100)...	235.5	185.3	221.1	218.8	22 Petroleum.....	86.7	79.7	83.6	83.5
3 Baking (1926 Cl.—100)....	12.3	10.8	11.2	11.0	18 Public Utilities.....	57.6	46.8	48.7	49.1
3 Business Machines.....	117.3	101.3	101.4	101.3L	3 Radio (1927 Cl.—100)....	12.9	10.4	11.7	12.6
9 Chemicals.....	174.1	160.3	168.7	168.1	9 Railroad Equipment.....	53.2	44.3	46.8	48.4
20 Construction.....	33.6	30.0	30.0x	30.1	22 Railroads.....	13.6	11.2	11.2	11.2
5 Containers.....	251.1	223.2	247.6	250.2	2 Realty.....	2.7	2.0	2.4	2.0S
9 Copper & Brass.....	103.6	91.0	101.9	98.5	2 Shipbuilding.....	118.1	73.5	118.1T	113.1
2 Dairy Products.....	33.6	30.8	33.4	32.7	11 Steel & Iron.....	85.9	72.9	80.3	80.8
7 Department Stores.....	20.9	19.4	19.8	19.9	2 Sugar.....	32.7	24.3	32.7h	30.9
6 Drugs & Toilet Articles.....	58.4	45.9	58.4h	55.0	2 Sulphur.....	180.2	162.1	175.0	175.4
2 Finance Companies.....	272.1	262.2	264.4	262.2x	3 Telephone & Telegraph....	47.5	40.4	41.7	40.4x
7 Food Brands.....	117.8	96.4	113.6	114.5	4 Textiles.....	57.3	49.0	57.3h	56.0
3 Food Stores.....	56.1	44.8	55.5	55.8	4 Tires & Rubber.....	15.3	13.4	13.7	13.4x
4 Furniture & Floor Covering...	56.9	50.0	50.3	50.0x	4 Tobacco.....	90.2	86.5	89.3	90.2H
3 Gold Mining.....	968.7	803.3	807.0	803.3R	4 Traction.....	43.5	35.3	42.3	43.5H
6 Investment Trusts.....	24.5	21.2	21.9	21.9	4 Variety Stores.....	248.3	230.7	235.6	238.4
3 Liquor (1932 Cl.—100)....	164.2	150.0	159.7	163.4					
9 Machinery.....	116.2	107.3	109.9	113.6					

R—New LOW record since 1933. S—New LOW record since 1929. L—New LOW since 1937. x—New LOW this year. T—New HIGH record since 1932. H—New HIGH since 1937. h—New HIGH this year.

# Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities*.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

## Westinghouse Electric & Manufacturing Co.

*As a stockholder of Westinghouse Electric & Manufacturing Co. (75 common shares at 122¼), I would be interested to know how you regard these equities from the appreciation standpoint. Also, can you explain why, despite reported orders and earnings 38% to 40% over 1938, the shares this year did not equal or exceed the 1938 high of 124½? If you think the technical position of the market now favors this stock, do you advise purchase of addition shares at current prices?—M. S., Pittsburgh, Pa.*

Westinghouse Electric & Manufacturing Co. is the second largest manufacturer of electrical equipment and appliances. The wide variety of products produced by this concern are used not only among diversified industries but also in the home. Thus consumer purchasing power as well as industrial activity is a detriment of sales volume. While sales of smaller items are fair even in times of depressed business conditions, the heavy lines afford better profit margins and thus earnings are highly cyclical, reflecting general industrial activity. Earnings for 1939 of \$5.18 per share were measurably improved over profits of \$3.38 per share in the preceding year and a continuation of this trend has been in evidence so far in the current year, first quarter results being equal to a profit of \$1.51

per share as against a profit of 88 cents per share in the first three months of 1939. The current large backlog and the expectation that orders for heavy equipment will continue to run ahead of a year ago assure a high rate of operation for some months to come and indicate further improvement in operating results. Some orders have been received from the Army and Navy and further business from this source is a possibility, although any substantial benefits from the war are more likely to be indirect. Finances, of course, continue to be quite strong, and continuation of liberal dividend payments in line with earnings is looked for. Capital structure is relatively simple, the 2,592,155 shares of common stock being preceded by only 79,974 shares of \$3.50 preferred stock. While it is true that orders are considerably above year earlier levels, failure of the stock to reach its 1938 high is undoubtedly accounted for by the general sluggishness of the market for the past few months.

Since the outlook for this company points toward further betterment of earnings, we advise retention of your holdings and would endorse additional commitments in moderate amounts.

## American Type Founders, Inc.

*I paid a few points more than current price of 5½ for American Type Founders shares. Does your analysis indicate much price improvement? Fiscal year earnings per share, I have heard, were vast improvement on previous period. Can you provide me with exact figures? Also, what action do you advise on this stock now?—G. C. V., Milford, Conn.*

American Type Founders occupies a dominant position in the field of manufacturing type and printing presses and handles nearly all items used by the printing trade except paper. Usually, hand type accounts for about 25% of sales, presses and other machinery another 25%, the balance represented by products handled for others. In the nine months ended December 31, 1939, sales were up 31% and operations resulted in a profit of 11 cents per share which compared with a deficit equal to 39 cents per share in the similar period of the preceding fiscal year. For the fiscal year ended in March of 1940, it is expected that a modest profit was shown which would compare with a 40 cents per share deficit the year before. Sales are, of course, cyclical but with relatively well maintained levels of general business conditions, the continuation of the improving trend in sales and earnings is likely to be seen over the coming months, although com-

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Prepaid and Instruct Us to Answer Collect.**

petition may tend to somewhat restrict widening of profit margins. Finances have been maintained in a consistently sound position but, due to the nature of the business, receivables necessarily account for a large part of current assets, making the company vulnerable to credit losses. Recent record in this connection has been quite satisfactory, however. Dividends have not been paid for some time past and early distributions are not believed probable. With earnings likely to be at somewhat higher levels over coming months, the shares have a degree of speculative appeal and we would accordingly recommend retention of current holdings, although we do not feel that additional purchases should be made at this time.

#### American Chain & Cable Co.

*On the strength of your analysis and recommendation of American Chain common in the September 9 issue, I purchased 150 shares at 17. What I would like to know is: Do you consider this the time to take profit or do you advise me holding further? Please furnish me with a new report at your earliest convenience and also advise if buying levels have been reached for "special situations" mentioned in your last issue.—D. K., Marietta, Ohio.*

American Chain & Cable is the largest producer of chains of all sorts and in addition manufactures automobile equipment. Its diversified line of products is used among a wide variety of industries, no one item accounting for more than 20% of sales. Profits for 1939 were equal to \$1.99 a share and were considerably better than the 56 cents per share reported for the year before. This sharp gain was extended into the first quarter of 1940 when domestic sales were 25% higher than for the similar period last year. Earnings of such a company are naturally cyclical, varying in line with rates of activity in general business, particularly as applied to the "heavy" industries. Thus operations of the company resulted in deficits in the worst parts of the depression, but very satisfactory earning power has been demonstrated under normal conditions. An aggressive merchandising policy and important patents have enabled the company to maintain its strong trade position. Finances, according to the balance sheet for the 1939 year-end, continue to be sound with

cash alone somewhat in excess of total current liabilities. Capitalization is relatively simple, consisting of 56,919 shares of 5% preferred stock and 989,529 shares of common stock. Liberal dividends have been paid when earnings permitted and it is expected that this policy will be continued in the future. Accordingly some increase in present rates over coming months would not be surprising. With indications pointing toward a good rate of operations throughout the summer months, at least, earnings should continue to score reasonable gains. We feel that retention of the stock for further appreciation from current levels is the advisable course to follow.

#### Phelps Dodge Corp.

*When can I expect a report on Phelps Dodge to appear in the Magazine? I would like to know how present sales and earnings measure up with last year. Have heard something of a new metal alloy called "PDCP," developed by this company. Can you tell me something about it?—profit margin?—markets?—uses? I have held 150 shares at a few points above current price. Would appreciate advice.—P. B. D., Atlantic City, N. J.*

Earnings of Phelps Dodge for 1939 were equal to \$1.48 per share on the capital stock which compares with a profit of 93 cents per share the year before. Both figures are after depletion charges. This improving trend has been carried forward into the current year and it is expected that first quarter results were somewhat better than for the corresponding period of last year. The concern is the second largest domestic producer of copper, accounting normally for nearly one-fourth of domestic output. A sizable amount of gold and silver is also produced, though, of course, copper revenues contribute the bulk of earnings. Operations are fully integrated and reserves should support a high rate of operations for some time to come. With indications pointing toward relatively well maintained rates of general business activity, no serious decline in the price of copper is anticipated and profit margins should therefore be protected since the firm is a comparatively low cost producer. War orders have not as yet figured in sales and the British Empire is apparently self-sufficient for the time

being, but extension and prolongation of hostilities could result in considerably greater demand for this metal. "PDCP" is a new type of copper developed by this company's subsidiary which, it is claimed, has several desirable characteristics not possessed by usual electrolytic copper and it is thought that this new product is particularly adaptable for high tension and submarine cables, air conditioning and refrigeration installation and for service where severe vibration presents serious problems. Finances continue to be quite sound, the balance sheet as of the 1939 year end disclosing cash alone of \$31,023,985, well in excess of total current liabilities of \$12,174,174. Capitalization is relatively simple, consisting of 3½% debentures of \$18,379,300 followed by capital stock in the amount of 5,071,260 shares. Dividend policy in the past has been fairly conservative and maintenance of current distributions, at least, is expected. The issue is an attractive holding at current levels for appreciation possibilities as well as for the income produced, and we accordingly recommend retention.

#### Celanese Corp.

*On the basis of your advice in the October 7 issue of the Magazine, I held on to 150 shares of Celanese common, purchased at 27. It was shortly after that the company resumed dividends and the stock kept improving in value. Now would like your latest appraisal including estimate of benefits to be derived from introduction of so-called "strong yarns." Also please explain what settlement of suit against Tubize will mean to Celanese.—H. K. F., Denver, Colo.*

Earnings of Celanese Corp. showed a sharp gain in 1939 and were equal to \$3.53 per share on the common stock as compared with only 26 cents per share in the preceding year. The company is the leading manufacturer of acetate rayon, generally regarded as superior to viscose rayon. In addition, the company also manufactures woven fabrics, fibre and chemical products, although these are not nearly as important to earnings as rayon. Intensive research and aggressive promotion have led to expanding sales and wider uses for products as well as developing new products. It is as yet too soon to estimate the effects of the new "strong yarns" on profits, but this

new line would appear to have interesting possibilities. Expansion of manufacturing facilities should aid output and production economies should be of further benefit to net earnings. The suit against Tubize Chatillon has been settled, the settlement providing for granting licenses to Tubize Chatillon for manufacture of abraded yarns on a royalty basis and Tubize has, for a cash consideration, assigned its patents on this subject to Celanese. Earnings of Celanese should thus be aided by lessening of competition. Finances continue to be quite strong, cash alone being shown on the latest balance sheet as well above total current liabilities. It is expected that present rates of distribution will be continued on the common stock over the near-term at least. With earnings for the first quarter of 1940 at a new high, and present indications pointing toward a record year, the issue has a good degree of speculative appeal at current levels and we recommend retention.

### Inspiration Consolidated Copper Co.

Will Inspiration Copper suffer from moral embargos placed on shipments of the metal to Russia and Japan? Has there been any marked change in sales volume? Do you think metal prices are fairly stable? At what price level can Inspiration still operate profitably? Would appreciate your answer to these questions and advice as to what to do about 80 shares purchased at 49 1/4.—D. H. B., Hot Springs, Ark.

Inspiration Consolidated Copper Co. operates one of the largest copper mines in the state of Arizona, but because of low grade ore, production costs are high. Reserves are substantial and at present rates of production the mine has an estimated life of somewhat over 20 years. While the company is a marginal producer it can operate profitably when the prices of copper are above 10 cents per pound. Accordingly earnings fluctuate widely in line with changes in demand and prices for the red metal. Losses have been reported in six of the past nine years with net income for 1939 having been equal to 70 cents per capital share. This was in sharp contrast to the loss of 27 cents a share realized in 1938. Finances as of December 31, last, were satisfactory with cash alone of \$1,920,551 being more than three times total

## THE BALTIMORE AND OHIO RAILROAD COMPANY

### SUMMARY OF ANNUAL REPORT FOR YEAR 1939

The Company's annual report of its operations and affairs for the Year 1939 is being mailed to stockholders. The following presents a

### CONDENSED COMPARATIVE STATEMENT OF OPERATING RESULTS

	1939	1938	Increase 1939 Over 1938	
			Amount	%
Total Railway Operating Revenues.....	\$161,030,252	\$134,722,330	\$26,307,922	19.53
Total Railway Operating Expenses.....	119,901,075	104,984,021	14,917,054	14.21
Net Railway Operating Revenue.....	\$ 41,129,177	\$ 29,738,309	\$11,390,868	38.30
Railway Tax Accruals .....	\$ 10,767,991	\$ 10,412,774	\$ 355,217	3.41
Equipment and Joint Facility Rents.....	4,836,086	4,473,741	362,345	8.10
Net Railway Operating Income.....	\$ 25,525,100	\$ 14,851,794	\$10,673,306	71.87
Income from Investments, etc. (Net)....	4,647,564	4,207,959	439,605	10.45
Income available for Fixed Charges.....	\$ 30,172,664	\$ 19,059,753	\$11,112,911	58.31
Interest and other charges remaining Fixed under the Plan (referred to below) .....	20,421,656	32,184,283		
Income Available for Other Purposes..	\$ 9,751,008			
Other Interest Accrued but not paid— Secured Contingent Interest.....	\$ 7,111,820			
Unsecured Contingent Interest.....	\$ 4,261,395			
Total Contingent Interest Accrued.....	\$ 11,373,215			
Net amount by which total interest charges were not earned.....	\$ 1,622,207	\$ 13,124,530		

Net Income Available for Interest and Other Charges for 1939 is \$30,172,664, compared with \$19,059,753 for 1938, an increase of \$11,112,911 or 58.31 per cent, and shows income for the year only \$1,622,207 short of covering entire interest charges. From the Net Income Available there was deducted \$20,421,656 for interest and other charges remaining fixed under the Plan, leaving Available Net Income for other purposes of \$9,751,008.

Pursuant to the provisions of the Plan, the President and Board of Directors, in the exercise of the discretion vested in them, determined to apply \$2,000,000 of the Available Net Income to Capital Fund, and the remaining \$7,751,008 to increase Net Working Capital. By reason of these appropriations, no contingent interest is payable on May 1, 1940, out of the income of 1939.

The contingent interest accrued in 1939 and not paid is \$11,373,215, and that for 1938 \$883,337, a total of \$12,256,552, which is carried to Deferred Liabilities in the balance sheet.

The Plan herein referred to is that for the Modification of Interest Charges and Maturities, dated August 15, 1938, which, after being accepted by the holders of \$476,489,928, or 87.79 per cent of the \$542,810,628 of securities affected, was submitted to and, after hearing, was approved by the District Court of the United States for the District of Maryland on November 8, 1939, acting under Chapter XV of the Bankruptcy Act, entitled "Railroad Adjustments."

Under the Plan \$166,270,421 of near-by maturities were extended for a period of from five to ten years, and fixed interest charges of the Company and its subsidiaries, which had been \$31,421,742, were modified so that \$19,644,679 remains fixed and the payment of \$11,376,435, for the period of eight years, becomes contingent on earnings as ascertained and applicable pursuant to the Plan. The deferred charges continue as an obligation of the Company and are payable at or before the maturity of the respective obligations.

During 1939 the total interest-bearing obligations of the Company were reduced by \$6,654,249, largely through the payment of equipment trust certificates.

DANIEL WILLARD, President

## Boston and Maine Railroad

### Plan of Exchange

Time within which Plan must be declared operative has been extended through June 13, 1940.

Holders of Mortgage Bonds of the Railroad not yet stamped under the Plan are advised that sufficient Bonds have not yet been deposited to warrant the Plan being declared operative and are urged to send in their Bonds for stamping without delay if court reorganization is to be avoided.

Copies of pertinent documents will be furnished on request.

BOSTON AND MAINE RAILROAD,  
150 Causeway Street,  
Boston, Massachusetts

April 27, 1940.

IN THE NEXT ISSUE—

What the Investor Must Know Today

current liabilities. The capital structure is rather simple in that the 1,181,967 capital shares follow only \$5,410,000 of funded indebtedness in claim upon assets and earnings. Since the company does no export business it will not be visibly affected by the moral embargo on shipments of metal to Japan and Russia. Net income in the first quarter of 1940 was equal to 25 cents a share as against 14 cents a share in the similar interval of 1939. Copper prices have eased somewhat of late but no great change from current levels of around 11½ cents a pound is anticipated in the near future. Demand is expected to remain at relatively favorable levels over the intermediate term and fair-sized earnings would appear to be in prospect. As a matter of record sales last year amounted to 66,682,102 pounds. No dividends have been paid since 1930 and resumption is uncertain at this time. The shares are not outstandingly attractive but where held in longer term portfolios we are advising their continued speculative retention.

#### Continental Can Co.

*Please give me your latest data on earnings, profits and financial position of Continental Can. Would also be interested in knowing your opinion on probable market action for common shares, reflecting first quarter results. Read with interest your recent "Battle of Containers," but at that time first quarter figures were not available. What progress is being made in soft drink field? I own 75 shares at 49½.—Dr. D. C. W., Reno, Nev.*

Continental Can Co. is the second largest domestic manufacturer of metal containers. Roughly two-thirds of total output is sold to food packers with the remaining portion being taken by the oil, paint, chemical, drug, beverage and numerous other industries. Machinery for the manufacturing and sealing of cans is also produced as is corrugated paper boxes, caps and seals. Costs are well controlled and plants are strategically located throughout the nation. Earnings are not particularly affected by depression influences as is evidenced by the record of comparative stability during the past decade. Results in 1939 were equivalent to \$2.21 per share as against \$2.17 a share in 1938. The usual strong working capital position was in evidence at the 1939

year-end. On that date current assets including cash of about \$12,300,000 exceeded current liabilities by approximately \$57,000,000. Capitalization consists of \$2,853,971 shares of common stock and 200,000 shares of \$4.50 preferred stock. The company reports quarterly on a twelve months' basis, and figures for the year ended March 31, last, revealed net income equivalent to \$2.80 per share up from \$2.19 a share the year before. The outlook is rather favorable, since indications are that packing crops will be larger and demand from industrial users should continue satisfactory as a result of generally good business conditions throughout the nation. Profit margins are not expected to change much over coming months and some improvement in earnings is thus possible over the intermediate term. Efforts are being made to enter the soft drink field, but as yet there is nothing definite in this connection. The company has an extended record of dividend payments and the current \$2.00 annual rate is expected to continue for the time being. The shares have attraction for the income afforded as well as possible longer term appreciation. We see no reason why present commitments should be disturbed.

#### United Carbon Co.

*Should I continue to hold 80 shares of United Carbon purchased at 58¼? To what extent have carbon black sales been improved due to the European war situation? What proportion of total sales and earnings does the natural gas division represent? I would like to have your latest report and appraisal of outlook.—H. McM., Scarsdale, N. Y.*

United Carbon Co. is one of the two leading concerns engaged in the manufacture of carbon black. Domestic demand originates largely from the rubber industry with the paint, printing ink and shoe polish trades taking lesser amounts. Sales by this division normally account for 60% of total volume with about 40% of the output being distributed abroad. Natural gas used in making carbon black is purchased. The production and sale of natural gas is also of importance with substantial reserves being owned in West Virginia, Kentucky, Louisiana, Texas and Kansas. Profits from the carbon black division fluctuate sharply while returns from the nat-

ural gas activities have recorded steady gains in recent years. After scoring gains in six consecutive years, earnings in 1938 receded to the equal of \$3.78 a share from the \$5.91 a share registered in 1937. Some improvement took place last year and net income was equivalent to \$3.82 a share. Finances are sound and the 397,885 shares of capital stock outstanding on December 31, last, comprise the entire capital structure. Sales of both carbon black and natural gas scored gains in the initial quarter of 1940 and results are thought to have approximated \$1.25 a share as against \$1.15 a share in the corresponding year earlier interval. Continued good demand for carbon black is anticipated and with prices again moderately increased on April 1st activities in this division may again become profitable. The good operating record of the natural gas division should be further extended over coming months. All in all, earnings may score moderate gains in the interval. The current \$3.00 annual dividend is regarded as secure. The shares appear rather limited in their speculative appeal at this time, but where one is primarily concerned with income we see no reason why present holdings should be disturbed.

#### U. S. Pipe & Foundry Co.

*Does U. S. Pipe & Foundry's declaration of four 50-cent dividends for 1940 indicate assurance of satisfactory operations throughout the year? What is estimated present backlog? Have profit margins been affected? Also advise whether you think I might realize price of 49¼ which I paid for 100 shares. What is the present financial position of the company?—W. C. J., Detroit, Mich.*

U. S. Pipe & Foundry Co. is the country's leading producer of cast iron pipe which is largely used in the construction of water and artificial gas mains and sewerage disposal systems. The first named is, however, the chief consuming outlet. Sales and earnings depend primarily upon levels of activity in the residential construction field as well as the status of municipal and Federal expenditures for public projects and replacement work. Sales and earnings are given to rather wide cyclical swings. Nevertheless, with the exception of 1931 and 1932 operations have been profitable throughout the trying depression years.

Earnings of \$3.69 per share realized in 1939 compared with \$2.38 per share registered in the preceding year. On December 31, last, current assets including cash of \$5,118,969 totalled \$10,298,187, while current liabilities amounted to only \$1,513,251. The 695,923 shares of common stock outstanding enjoy sole claim upon the assets and earnings of the company. Earnings are reported semi-annually, but recent advices state that sales and profits so far this year compare favorably with year earlier levels. No figures are published concerning the amount of business on hand. Profit margins are thought to have been relatively well maintained to date. Residential construction figures show gains over those of a year ago and the trend may continue in line with present good levels of public purchasing power. However, government appropriations for public works are lower and appear likely to remain under 1939 expenditures. At this time appearances are that results in the first half of 1940 will not vary to any great extent from the \$1.63 per share of the January-June interval of 1939. Four quarterly dividends of 50 cents each, payable March, June, September and December 20, respectively, were declared in the early part of the year. From a speculative standpoint the shares appear rather limited in their appeal at this time, but since they afford a good income and offer possibilities of longer term enhancement retention is believed warranted.

## America's Fastest Growing Industry

(Continued from page 85)

its load factor from 61 to at least 65 per cent. Unless fares are reduced, these gains, together with smaller advances in mail and express totals, should lift earnings to over \$1 a share against the 21 cents reported for 1939. The company is more heavily dependent on airmail pay than any other major line; it has had an application for higher rates on file with the CAA for the past year and a half, but the agency's decision in the matter is still pending.

Smaller than either American or

United and running about neck and neck with TWA in point of passenger traffic is Eastern Air Lines, headed by Capt. E. V. Rickenbacker of World War fame. This company's main route is from New York to Miami via Washington and Jacksonville. Its system as a whole, however, pretty well blankets the South and ties in with Pan American at Brownsville, Texas, and Miami. It also has a line running up to Chicago through Atlanta and Louisville. Just as United stands to gain from the development of the Northwest, Eastern will cash in with the progressive industrialization of the South.

As an independent operator, the company is the youngest of the major lines, having split off from North American Aviation only two years ago in order to obtain airmail contracts. Its "Great Silver Fleet" is not as vast as the name implies. By June it will consist of 31 units, including 18 DC-3s, 10 DC2s and 3 DSTs; 13 more planes are on order for this summer and 8 DC-4s are to be added next year. To handle its peak winter load, Eastern generally leases equipment from other lines

whose heaviest business comes in the warmer months. The company's earnings record is among the best in the industry, largely because its most important routes are relatively free from competition of other air carriers.

Apart from Western Air Express and Marquette Airlines, there are 13 scheduled domestic airway operating companies in addition to the "Big Four" discussed in the foregoing paragraphs. Only nine of them have stock outstanding, however, and of these the four most important, either currently or potentially, are Pennsylvania-Central (serving Washington, Pittsburgh, Akron, Cleveland, Detroit, Grand Rapids, Chicago, Buffalo, Baltimore and several other centers); Northwest (Chicago, Milwaukee, Minneapolis, Spokane, Seattle, Portland, Winnipeg); Braniff (Chicago, Kansas City, Oklahoma City, Amarillo, Fort Worth, Dallas, San Antonio, Houston, Galveston, Corpus Christi, Brownsville); Chicago & Southern (Chicago, St. Louis, Memphis, New Orleans).

Needless to say, these lines generally rank below the bigger com-

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## Union Pacific Railroad Company

### Refunding Mortgage 3½% Bonds, Series A

To be dated June 1, 1940

To be due June 1, 1980

Redeemable as a whole at any time and in part (that only in amounts of \$5,000,000 or multiples thereof, except for the sinking fund) on any interest date, at redemption prices beginning at 106½% to and including June 1, 1950, and scaled downward thereafter. Redeemable for sinking fund on June 1, 1951, or any interest date thereafter at redemption prices beginning at 102½% to and including June 1, 1955, and scaled downward thereafter.

The proceeds of the sale of these Bonds will be used, with other moneys, to redeem \$85,902,000 principal amount of the Company's First Lien and Refunding Mortgage 4% Bonds and 5% Bonds. The Company advises that such bonds will be redeemed at 107½%, plus accrued interest to September 1, 1940, upon surrender thereof, promptly after the Refunding Mortgage Bonds, Series A, shall have been delivered.

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK, Trustee

The issue and sale of the above Bonds to the undersigned is subject to the approval of the Interstate Commerce Commission and all legal proceedings in connection with the issue and sale thereof are subject to the approval of counsel for the undersigned.

In the opinion of counsel these Bonds are legal investments for savings banks under the laws of New York, New Jersey, Pennsylvania, Massachusetts, Rhode Island, New Hampshire and Vermont.

Copies of the Offering Circular dated April 29, 1940, describing these Bonds and giving information regarding the Company may be obtained in any State from only such dealers participating in this issue as may legally offer these Bonds under the securities law of such State.

### OFFERING PRICE 102% AND ACCRUED INTEREST TO DATE OF DELIVERY

To facilitate the offering it is intended to stabilize the price of these Bonds. This statement is not an assurance that the price of these Bonds will be stabilized or that the stabilizing, if commenced, may not be discontinued at any time.

Temporary Bonds, exchangeable for definitive Bonds, when prepared, may be delivered in the first instance. The Company will make application in due course for the listing of these Bonds on the New York Stock Exchange and for their registration under the Securities Exchange Act of 1934.

**Kuhn, Loeb & Co.**

New York, April 30, 1940.

# Do you own THESE STOCKS?

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Am. Radiator	Amer. Loco.
Flintkote	Mathieson Alk.
Holland Furn.	Phillips Pet.
Johns-Manville	Union Carbide
Masonite	So. P.R. Sugar
Nat'l Gypsum	Pac. Lighting
Ches. & Ohio	Cutler Hammer

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## UNITED BUSINESS SERVICE

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panies in the matter of equipment, but are coming along rapidly. Penn-Central has supplemented its 14 Boeing 247-Ds with 10 Douglas DC-3s in the past few months. The new ships are badly needed for passenger mileage increased no less than 133% in the first quarter of 1940. This line and its corporate predecessors, incidentally, have never had an accident in twelve years of operation. Braniff will have 8 DC-3s in service by June in addition to its 6 DC-8s and 5 Lockheed Electras; the company's passenger mileage nearly doubled last quarter. Chicago & Southern, whose passenger traffic rose only 47% in the first three months of this year, is nevertheless adding 4 DC-3s to its fleet of Electras. Northwest, with traffic sharply higher, has bought 4 DC-3s, raising its total to 11; it also operates 7 Lockheed Zephyrs.

As a class, the smaller airlines are more dependent on airmail revenues than the larger operators and for this and other reasons are considerably more speculative from an investment standpoint. By the same token, however, they hold out opportunities for relatively large gains by reason of their more rapid increases in passenger traffic. Also, with the country's air system still in a developmental state, these lines may burgeon rather more rapidly through acquisition of new routes. Routes

now under application by Braniff, for example, would considerably more than double its present mileage and extend its service over a very much broader area. Some lines also have interesting merger possibilities with the bigger operators over a period of time.

Whatever the destiny of any of the smaller or larger companies, there is little doubt but that the industry as a whole faces an extended period of tremendous growth. Unlike the aircraft manufacturers, the ultimate coming of peace poses no problem except that of resuming the financing of aeronautical progress, a burden the airlines carried up until a year or so ago when it began to be taken over by the Allies and our own Government (the huge new ships currently being built by Douglas and Martin for the Army, for example, will be adaptable for transport use with little modification in design; also, TWA's new Boeings will be modifications of the Flying Fortress). Air express traffic, now amounting to a barely perceptible fraction of the country's total freight and parcel post movement and confined largely to east-bound motion picture films and west-bound fashion goods, offers a likely avenue of growth though rates, unchanged in five years, will have to come down.

No little credit for the progress of commercial aviation recently is due to the Civil Aeronautics Authority, set up by act of Congress in 1938. Whether the present attempt of the Administration to destroy the independent status of this agency will, if successful, prove a blow to the industry cannot be positively foretold, but preservation of an entirely satisfactory *status quo* would seem to be in the best interests of aviation.

## As I See It!

(Continued from page 71)

more formidable obstacles in the path of the Allies and makes any prospect of ultimate victory more remote.

This is the situation which the British War Office has tried to shrug off with the statement: "We have lost the first trick in the game." I regret the necessity of having to

correct this. It is *not* the first trick lost. The first trick lost—and most crucial of all—was taken by Hitler when the French and British supinely permitted him to fortify the Rhineland with the formidable West Wall. Austria, Czechoslovakia, Poland, Finland—each was a trick lost. The earlier fizzle of the British-French effort to scare Mussolini out of his Ethiopian conquest—a gesture which won them Mussolini's enmity—was a trick lost. The subsequent failure to make terms with Mussolini in time—before his price became impossibly high—was a trick lost.

No, Allied defeat in Norway is not the first trick lost; and unless there is a miraculous transformation in the quality and vigor of the Allied war effort—especially Britain's part of it—it will not be the last trick lost.

How long will the British people wait for the Chamberlain Government to stop losing tricks and to show at least one winning hand? Their criticism and uneasiness are plainly growing—and with good reason. The existence of differences and friction within the Cabinet—centering on the question of aggressive and effective conduct of the war—are an open secret.

Among prominent British laymen, doubts and forebodings are being spoken more and more freely. For instance, Sir Walter Layton, publisher of *The Economist*, makes the most vigorous attack on the budget just presented by Simon, die-hard Chancellor of the Exchequer. This budget, he says, projects war expenditures less than Germany is making, it raises the inference that Britain's "war supply position is bad beyond belief" and it gives ground for fear that "if we spend money at that rate only, we shall lose the war."

"We must pin what hopes we can," adds Sir Walter, "to the possibility that by autumn, through a change in personnel or some other minor miracle, the breath of realism and courage will have blown through the windows of the Treasury."

The "breath of realism and courage" needs to blow through more official British offices than those of the Treasury. Simon is not the only author of Britain's recent story of failure and inadequacy. Chamberlain and Hoare are among the more

prominent co-authors.

I do not say that the Allies are doomed to defeat in Norway nor that, if defeated there, they will certainly lose the war. But they are off to a bad start, every failure is terribly costly, every retreat weakens their prestige with the remaining neutrals and lessens their chance of eventual victory.

I have a feeling that this year may quite probably tell the story. If Hitler wins Norway, he will have Sweden. What next? Probably the Balkans, with or without military action. After that, probably a death grapple on the Western front.

We in America have a vital stake in the outcome of this war, even though we hope to avoid direct involvement. We detest everything that Hitler and the other unprincipled dictators stand for. We boil with rage to see the Nazis ruthlessly destroy—for one people after another—the physical possessions and the human decencies and freedoms laboriously built up generation after generation over the centuries. Our stomachs revolt against the kind of world order that Hitler is striving to establish.

That is why, like numerous enlightened Englishmen and Frenchmen, I speak out against the ineptitude and inadequacy of the Allied effort. I want the Allies to win. Wishful thinking and the avoidance of criticism will not help them in the least.

## Atlas vs. Hercules Powder

(Continued from page 102)

complicated in either case. The bonds that both Atlas and Hercules issued at the time they were formed have long since been retired out of earnings. Atlas has an issue of 68,597 shares of 5% cumulative preferred stock outstanding ahead of the 262,852 shares of common. And Hercules has an issue of 96,194 shares of 6% cumulative preferred stock ahead of its 1,355,688 shares of its outstanding common stock.

Earnings were at a good rate last year with Atlas turning in a net of \$3.82 per share after preferred dividends and Hercules reporting a net of \$3.65 per share. Dividends on the Atlas stock came to \$3.00 per

share, as compared with \$2.25 per share in 1938, and dividends on the Hercules stock totaled \$2.85 per share as compared with \$1.50 per share in 1938. Hercules' earnings and dividends set a twenty-year high record last year and Atlas showed a better than 40% gain.

The increases registered during last year were carried through into the current year with Hercules setting another record by turning in the best three months earnings in over a decade, equal to \$1.22 per share, as compared with 73 cents per share for the like period of last year. Atlas made an even better showing percentage-wise with net equal to \$1.11 per share, as against 54 cents per share in the first three months of 1939. This performance is typical of the two companies, since Atlas is more dependent on the rate of heavy industry than Hercules and naturally responds more quickly to the highly volatile activity rates of its customers.

Since it combines a large degree of stability with its strong growth characteristics, Hercules enjoy a better rating in the market than Atlas does. The shares of the former sell currently around 98, while those of the latter sell around 74. Yet a study of the indicated potential earning power of the two shows that Atlas has more dynamic possibilities. The research facilities of Hercules are better and the company is currently doing well with its latest developments which include Staybellite, a synthetic rosin that is finding a wide market in the manufacture of varnishes and Tornosite, a chlorinated rubber for protective coverings. But both companies are tops among the explosive manufacturers in spite of du Pont's position as the leader. Atlas' contract with the Allies will give it an opportunity to earn a lot of money.

Whether or not it will be able to use such windfall earnings to good advantage or not remains to be seen. But the major consideration for some time to come is the fact that it will be making the money without in any way endangering its present position. Thus over the medium term both Atlas Powder and Hercules Powder may be expected to show satisfactory domestic earnings, but Atlas has the edge in so far as it has a more dynamic position in terms of the European conflict.

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## How to Rate War Earnings

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*(Continued from page 87)*

through from the original producer to the consumer would be quite possible, and direction of industry into activities best suited for war purposes (rather than profits) hardly less likely. Great Britain's new budget and the measures designed to meet the cost of the war are sufficient warning of the impact our entrance would have upon business in general.

The real danger for the war babies, if this market keeps its head and refrains from pushing them up as though war orders will continue forever, is not peace but war nearer home. So long as the United States keeps out it is possible to apply fairly sensible rule of thumb measurements to earnings and stock prices. After that, no one knows.

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## Food Machinery Corp.

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*(Continued from page 97)*

Judging from the record of the past, Food Machinery is still in a phase of growth through acquisition of smaller concerns in the field. Naturally, at some point along the line, this sort of program begins to yield diminishing returns and other avenues must be explored if sales and profits are to continue to expand. In this connection, it is of interest to note that the company is constantly active in the field of industrial research, appropriating substantial sums each year for this purpose.

A factor definitely favoring Food Machinery's earnings prospects this year is that carryover of canned goods into the new packing season will be of unusually small proportions and considerably larger packs of most vegetables, as well as a number of other lines, are looked for. Last year was decidedly sub-par in this respect and the increase this year may run around 25% or better. Unless prices decline, packers and processors should thus be well situ-

ated to add to their mechanical facilities. It is not unlikely, therefore, that over the rest of the year Food Machinery will be able to equal or better its entirely satisfactory December quarter profit gains—45 cents per common share against 27 cents a year earlier. Should this trend be maintained, 1940 earnings will be within gunshot of the record level of 1937.

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## General American Transportation

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*(Continued from page 105)*

converted into common stock as they undoubtedly will be since the conversion price is \$12.50 per share against a market price for American Airlines common of around 71, will give Aviation Corp. a better than 35% control over the country's leading airline. General also has a large interest in Pan American Airways, and an 84% controlling interest in Barkley-Grow Aircraft Corporation. This latter company is a Detroit manufacturer of airplanes and aircraft parts.

Other investments of General American Transportation include a block of Canadian General Transit Co. stock and the controlling interest in a Swiss concern that has large holdings of both a German and a French car leasing company operating under the same methods as does General American. The French unit is currently paying dividends, but the German unit is not.

Spread over a wide field though they are, the company's interests are all profitable and have contributed to the strong financial position of the parent concern. As reported in the 1939 year end statement, current assets stood at \$13,549,000 of which cash amounted to \$4,869,000 as compared with current liabilities of only \$4,827,000. The capital structure is comparatively simple with a funded debt of \$29,005,000 and 1,032,315 shares of common stock. The bonds are primarily serial and equipment trust obligations of short maturity and carry low interest coupons. At the end of last year the company refunded \$7,000,000 of 3% notes at 1 and 2% and effected a handsome saving in interest charges. Maturities which will have to be

met during the current year total \$4,916,000 but are not considered a problem.

Earnings last year came to \$3.11 per share as against \$2.91 per share for 1938, and dividends totaling \$2.37½ per share were paid. The company is conservative in its disbursements, but income is relatively steady and not a dividend has been missed in over twenty years.

The recent efforts of the company have been directed towards a diversification of interests within the transportation field and with the steady income from the more important units to rely on, experimental steps have been taken into these newer and more dynamic industries. Yet, here too, selection has been careful and in line with the conservative history of the company. The shares currently sell around 52 and at this level are representative of the better investment grade of security whose price is closely allied with demonstrated earning power. With the stable car leasing and storage divisions doing well and the manufacturing division estimated to have had a good first quarter, current earnings are running ahead of last year. And this coupled with the favorable outlook for the newer and more volatile interests of the company make the shares worthy of consideration as investments over the medium term both from the standpoint of income and appreciation possibilities.

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## Fairbanks, Morse—Likely to Set New Earnings Record This Year

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*(Continued from page 93)*

suitable for auxiliary engines for pumping and current generation. Moreover, with about 83% of total users of Diesels being other than those engaged in marine transportation, Fairbanks, Morse has a wide field for promotion and sales.

Although the shares are rather closely held and at times there does not seem to be much market interest in them, they are, nevertheless, among the most volatile in their particular class. Over the past four years the volatility has been at least 50% greater than that of THE

MAGAZINE OF WALL STREET's index of common stocks and even at the present time they are selling well above the 1939 high. With the prospects of another favorable year's operations ahead the company's shares should continue to hold their grounds in any declining market, while being in an excellent position to reflect any of the improvement that is expected to accrue later in the year. It is also probable that the recent 50 cent dividend will be augmented by further disbursements along about November.

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## Outlook for Paper Stocks

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*(Continued from page 90)*

of getting any Finnish pulp in the near future but in the event that the Allies are successful in controlling the northern half of Norway and Sweden is not invaded by Germany then there is hope of getting some Swedish pulp out through Norway. However, our share of any such shipments will likely be small for reasons set forth in the discussion of the problems of Great Britain and France.

While paper prices will mount and some companies have adequate supplies of raw materials on hand for at least a half year, it is not likely that all paper companies will report equal profits. Indeed, from what can now be seen it will probably be only those companies whose raw material reserves are sufficiently large to service their own paper production capacity or perhaps even have a surplus of pulp wood that will really benefit from rising paper prices. Such companies are not numerous.

Among the better known paper making companies, whose shares are available to the public and that have pulp production capacity in excess of manufacturing needs are Crown Zellerbach Corp. About 50% of Crown Zellerbach's capacity is newsprint and the remainder krafts, wrapping paper, board, tissues and many probably soon to be scarce specialties. The greater part of the company's capacity is located on the west coast where many newspapers are supplied. Of greatest importance is the company's pulp production which exceeds paper making

capacity by about 20%. Crown has been selling excess pulp—roughly 100,000 tons yearly—to other paper makers, including Japan. International Paper & Power Co. also has a surplus of pulp over normal requirements. International customarily sells about 170,000 tons of pulp each year although if pressed, might be able to increase outside sales to nearly 250,000 tons. Champion Paper and Fiber Co. has a small surplus for sale each year although its paper and board capacity is sufficiently large to consume its entire pulp output if paper sales warrant such action.

Until recently, National Container had just sufficient pulp capacity to take care of its own needs but expansion in pulping facilities this year now give the company a surplus of about 15,000 tons per annum. St. Regis Paper owns directly just sufficient pulp facilities to make it independent of the outside market but an agreement with the Taggart Corp., a 25% owned affiliate, gives St. Regis an additional 60,000 or more tons of pulp if required. Union Bag and Paper is one of the companies that is very well supplied with pulp and the supply is sufficiently large to permit sales of 50,000 to 60,000 tons if so desired. West Virginia Pulp & Paper has paper production capacity in excess of pulp supplies but in 1937 the company consumed only about 330,000 tons out of a potential annual supply of 350,000 tons thus leaving a small saleable surplus.

Then of course, there are those companies who have little if any paper capacity, devoting most of their efforts to the production and sale of pulp. Among such companies are Puget Sound Pulp and Timber with an annual capacity of about 110,000 tons, Soundview Pulp Co. with potential production of 150,000 tons yearly and Rayonier, Inc.—the largest of the three—with an annual output of 320,000 tons and a paper making capacity of about 16,000 tons.

Some of the specialty paper companies such as Sutherland Paper and United Paperboard Co., Hinde & Dauch Paper, and Robert Gair who have no pulp capacities of their own will be forced to work upon their stocks on hand and perhaps, fill out their product with additional paper stock, rags and other filling materials. Their stocks of raw ma-

terials will permit them to keep costs in line with paper prices although profit margins will not be so large as those companies whose own raw material production capacity is in keeping with their paper output.

As it now appears, practically all of the paper companies will be in a position to make some money over the next six months or so depending upon continued demand for paper and a relative scarcity of raw materials. However, if new facilities are added it will be costly and—after world conditions return to normal—may be unprofitable for some time to come. The paper industry is still one of the most speculative of industries and while it now seems to be at the beginning of its "Prince" stage there always has, and always will be, a reversion to the "Pauper" condition in which the industry has found itself during the whole of 1938 and the most of 1939.

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## Which Way for Business Now?

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*(Continued from page 75)*

of activity in the host of steel consuming industries making both capital goods and consumers' durable goods has been recently supplied by an ingenious graph prepared by the Federal Reserve Board. Taking the 1939 average as 100 and allowing for seasonal variation, one line shows man-hours worked in the steel industry and the other line shows man-hours worked in the automobile, machinery, equipment and other steel-fabricating industries, both covering the period from the start of 1939 through March of this year. These measures show steel production was well below consumption through the first seven months of last year, that the gap then began to narrow, that steel production crossed consumption in early October and stayed above it for about five months, crossing consumption on the downside in February.

At the widest gap last summer, steel production was about 9% under steel consumption. At the steel activity top last December, production was about 14% in excess of the consuming rate. By the end of March, with the figures estimated, production was about 9% below con-

sumption. This favorable gap has probably widened a bit further, since April activity in the steel-fabricating industries has been better maintained than steel production.

In part the excess steel production last autumn represented export demand. Since export demand now is considerably larger than last December, the steel outlook basically is more favorable than the above comparisons indicate. While inventories in hands of fabricators are comfortable, there is scant inducement to let them run off materially, so that over the near term the steel component is more likely to give some aid to the general business index than to pull it down further.

With Government money continuing to pour out in heavy volume, a record-breaking supply of funds in the banks, economic supply-demand relationships generally healthy, and the war inflation more likely to expand than to contract, we can not take other than a hopeful view of the business prospect.

### Forthcoming Dividend Meetings

Company	Time	Date
American Bank Note Pfd.....	12:50	5/22
American Can.....	2:15	6/25
American Tel. & Tel.....	12:00	5/15
Borg Warner.....	2:00	5/31
Briggs Mfg.....	4:00	6/6
Bulova Watch.....	—	6/3*
Chesapeake & Ohio Com. & 4% Pfd.....	2:30	5/31
Cluett Peabody Com. & Pfd.....	2:00	5/23
Continental Ins.....	11:00	6/20
Detroit Edison.....	2:00	6/11
du Pont Com. & \$4.50 Pfd.....	11:15	5/20
Eastman Kodak Com. & 6% Pfd.....	12:00	5/8
El Paso Natural Gas.....	—	5/24*
Firestone Tire & Rubber.....	9:30	6/21*
Florence Stove.....	2:00	6/14*
Fruehauf Trailer.....	—	5/29*
General Motors Com. & Pfd.....	4:00	5/6
Gillette Safety Razor Com. & Pfd.....	2:00	5/23
Heyden Chemical.....	3:00	5/7*
Howe Sound.....	10:00	6/11
International Business Machines.....	11:00	6/25
Johns-Manville 7% Pfd.....	4:30	5/20
Kennecott Copper.....	11:45	5/21
Lake Shore Mines.....	—	5/15*
MacAndrews & Forbes Com. & Pfd.....	11:00	6/20
Monarch Machine Tool.....	—	5/14*
National Cash Register.....	3:30	5/29
National Steel Corp.....	10:00	6/13*
Philadelphia Co.....	12:00	6/17*
Remington Rand Com. & \$4.50 Pfd.....	9:15	5/28
St. Joseph Lead.....	11:00	5/10*
Southern California Edison.....	12:30	6/28
Texas Gulf Sulphur.....	9:30	5/16
Timken Roller Bearing.....	1:00	5/7
Union Carbide & Carbon.....	—	5/28*
Union Pacific.....	11:00	5/23
Van Norman Machine Tool.....	—	5/10*
Wheeling Steel \$5 Pfd.....	10:30	5/29
Yale & Towne.....	2:00	6/3*

\*—Approximate date.

### Another Look At—

(Continued from page 99)

the near future. Foreign production continues to be greater than consumption and no demand from abroad is expected unless the war attains a sustained violence that would exhaust supplies. But domestic business has been good and earnings are slightly above last year.

The net last year was equal to \$2.70 per share out of which dividends came to \$2.00 per share. This is in line with the company's conservative policy, although there is neither funded debt nor preferred stock ahead of the 1,955,680 shares of common stock, and current assets are over seven times current liabilities. At current levels of around 39 the shares offer longer range appreciation possibilities based solely on domestic gains and merit consideration in this light.

### The Promise and Problem of Technological Progress

(Continued from page 80)

least the total of all levies on business could be maintained while at the same time making some vital changes in the crazy-quilt of our tax policy. Economic planning, so fervidly urged on the nation, seems to overlook the one point where planning is most necessary and practicable. We go from tax bill to tax bill, improvising and experimenting, keeping business always in the dark as to what next year's policy will be. An attempt to consider the truly long term over-all aspects of taxing and its effects on industry would undoubtedly lead to several immediate changes—among them the elimination of the capital gains tax. It would look for a rational settlement of the conflict between our efforts to find work for the unemployed and our payroll levies which penalize the employer who increases his force. In the next depression, possibly, if a company sacrifices profits in order to keep more employees than necessary, it will not be penalized by a tax on the wages thus expended in keeping men in jobs.

Individual efforts like that of American Telephone are not enough, although they point the way by accepting part of a burden which industry is slow to consider its own. The eventual solution may be years off and in a form not anticipated now. But technological progress must be matched by advanced thinking on how to use our new methods without killing the system that produces them. Business must plan ahead, past the next peak in volume, into the coming tests of how its operations affect the common man in a depression. The decision as to how that trial will be weathered is being made now and in the periods of normal business or prosperity. It can not be postponed until trouble is actually here.

### The Bond Bulletin

(Continued from page 103)

Recently quoted at 91, the bonds appear to offer an interesting speculative opportunity.

\* \* \*

The substantial improvement shown in the earnings of International Paper & Power last year, coupled with the promising outlook for the current year, lends weight to the likelihood that the company may give consideration to a bond refunding operation later this year. The possibility is reflected in the recent strength of International Paper deb. 6's 1955. Recently selling around 103, the issue is callable at 105.

\* \* \*

Reports are also current that Union Pacific will refund its outstanding 4's and 5's due 2008, outstanding in the amounts of \$66,000,000 and \$20,000,000 respectively. Both issues are callable together at 107½, and as a whole only. Road should be able to float an issue of 3% or 3¼% bonds without difficulty.

\* \* \*

McCrorry Stores has filed an issue of \$3,000,000 sinking fund debentures due 1955. Proceeds will be used to redeem the company's outstanding 5's 1941.

\* \* \*

Purity Bakeries 5's 1948 appear scheduled for an early call. The issue is callable at 103½ at any time on 30 days notice. Recent quotation 104.

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